OPEC

Organization of the Petroleum Exporting Countries

Monthly Oil Market Report

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Feature Article:
Price correction reflects adequate supply

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Oil Market Highlights

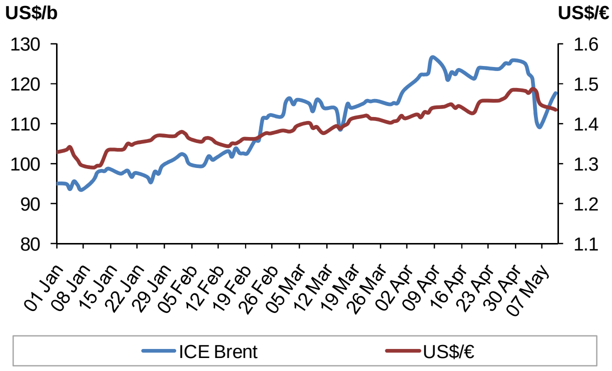
- The **OPEC Reference Basket** rose further in April to average $118.09/b, up $8.25 from the previous month and $35.76 from a year earlier. The continued upward trend was supported by ongoing developments in some MENA countries and improving economic sentiment. The front month Nymex WTI and ICE Brent contracts averaged $110.04/b and $123.10/b, respectively, which were their highest level since the onset of the financial crisis. However, prices experienced extreme volatility and a sharp correction in the first week of May, dropping by almost $17, as profit-taking triggered a technical sell-off. Since then, prices have rebounded, with the OPEC Basket standing at $111.48/b on 10 May.
- The **world economic growth** forecast for 2011 remains unchanged at 3.9%, although there have been some offsetting revisions. The US economy has shown some slowdown recently and, while it is expected to regain momentum, the forecast has been reduced to 2.6% from 2.9%. Euro-zone growth has been increased to 1.7% from 1.5%, backed by continued expansion in the manufacturing sector and improving domestic demand. Japan's economy is still forecast to decline by 0.1% following the recent tragic events. Developing Asia is expected to contribute the most to global growth in 2011, with China growing by 9.0% and India by 8.1%. Risks still appear to be skewed downward due to sovereign debt concerns, rising inflation across the globe leading to higher interest rates and potential overheating in developing Asia.
- **World oil demand** is forecast to grow by 1.4 mb/d in 2011, broadly unchanged from the previous report, following an increase of 2.1 mb/d last year. The Japanese earthquake, along with economic uncertainty in the US is keeping oil demand estimates in an adjustment mode and is imposing a downside risk for the year's forecasts. At the same time, China's economy is roaring ahead of all expectations, which has implications on the country's consumption. As a result of the offsetting demand trends, the risks look to be nearly balanced at the present time.
- **Non-OPEC oil supply** is forecast to increase by 0.6 mb/d in 2011, following growth of 1.1 mb/d in 2010. This represents an upward revision of 65 tb/d over the previous report. The adjustment to this year's growth was mainly due to the release of preliminary data for actual production in the first quarter. OPEC NGLs and non-conventional oils are expected to average 5.3 mb/d in 2011, an increase of 0.4 mb/d over the previous year. In April, total OPEC crude oil production, according to the secondary sources, was estimated to average 28.99 mb/d, an increase of 70 tb/d over the previous month.
- **Product markets** received support from the top of the barrel in April, as stronger light distillates demand resulted in a more positive sentiment. Gasoline consumption improved ahead of the summer driving season, despite higher retail prices in the US. Lower refinery runs and falling product stocks in the US triggered an early bullish sentiment, supporting prices. Additionally, naphtha recovered the ground lost last month, as some naphtha crackers returned from maintenance, as well as on news that Japan would restart two naphtha crackers over the coming weeks.
- The **tanker market** experienced mixed movement in April with dirty spot carrier rates falling and clean spot rates seeing gains. Lower tonnage demand and refinery maintenance drove the decline in dirty carrier rates. The rise in clean spot freight rates was mainly due to increased product trade. In April, OPEC spot fixtures increased by 10%. Sailings from OPEC were lower and arrivals in the US increased 1%.
- US **commercial oil inventories** continued the downward trend in April, declining by 1.3 mb. The draw was driven by products which fell 10.1 mb, while US crude oil stocks partially offset the drop with an increase of 8.9 mb. Despite the decline, US commercial inventories remain at 10 mb above the five-year average. The most recent data for March shows that commercial oil inventories in Japan reversed the downward trend, increasing by 2.0 mb with crude showing a build of 5.9 mb, while product inventories fell by 3.9 mb. Japanese oil inventories remained at 2.1% above a year ago, representing a deficit of 5.9% compared to the five-year average.
- **Demand for OPEC crude** in 2010 is estimated at 29.5 mb/d, unchanged from the previous report and an increase of 0.4 mb/d over a year earlier. In 2011, required OPEC crude is expected to average 29.9 mb/d, about 0.4 mb/d higher than last year and in line with the previous forecast.

Price correction reflects adequate supply

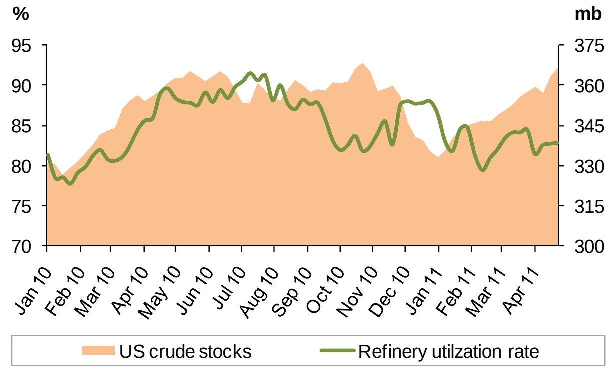
In the first few days of May, crude oil prices appeared to have shifted to a higher range, with the OPEC Reference Basket moving between $116/b and $121/b. While uncertainties due to the ongoing crisis in the MENA region and the triple catastrophe in Japan continued to set the background for prices, the higher range reflected improving expectations for market needs in the second half of the year.

However, on 5 May, crude oil prices plunged, with Brent futures shedding over $10/b, and on the following day, prices fell even further. This sharp correction was the result of a huge sell-off in commodity markets including oil, which triggered profit-taking as losses gained momentum. For the week, both WTI and Brent experienced a correction of almost $17/b, the sharpest weekly decline on record. This was an inevitable adjustment in prices which brought them more in line with short-term market fundamentals.

Graph 1: ICE Brent prices vs. US$/€ exchange rate



Graph 2: US crude oil stocks and refinery utilization rates



Prior to this steep decline, US dollar weakness had been an important factor driving prices higher, given the existing strong inverse relation (***Graph 1***). This was also seen during the recent collapse in prices, as intra-day movements also showed a significant correlation. Since the beginning of the year, the dollar has seen an overall declining trend, reaching a three-year low of almost $1.50/€. While prior to the recent sharp correction, Brent benchmark prices had risen by 14% in euro-terms, in dollar-terms, they increased by a much higher 28%, underlining the continued impact that exchange rates have had on crude oil prices.

Despite this exceptional volatility, economic prospects have not changed significantly since last month and global growth remains at 3.9% for the current year, although the risk to the downside seems to have increased. Growth in the 1Q11 in the US has been only 1.8%, much lower than the 3.1% in the 4Q10. This was mainly driven by a major drop in governmental spending. With the current quantitative easing ending by June, it remains to be seen if consumers will continue spending, and whether the expansion will accelerate again. Developments in Japan remain uncertain, and while some of the economic shortfall from the 1H11 is expected to be compensated in the 2H11, the economy is expected to contract by 0.1% this year. For the remainder of 2011, the growth drivers continue to be the developing economies, particularly China and India. However, continuing challenges include the sovereign debt situation in major OECD countries, particularly the Euro-zone, rising inflation across the globe, which is putting central banks under pressure to raise interest rates, and a potential overheating in many Asian economies.

These economic uncertainties are clouding market needs for the remainder of the year. If the slowdown in the US economy were to persist, this would likely affect demand growth. In Japan, the recent catastrophes have already dramatically reduced oil consumption, with March and April showing a contraction of 0.2 mb/d and 0.3 mb/d, respectively. In contrast, Chinese economic growth continues to be stronger than expected, adding another 0.2 mb/d to growth in the first quarter. These offsetting trends have left the forecast for global oil demand growth in 2011 unchanged at 1.4 mb/d.

On the supply side, non-OPEC production has shown strong growth of 0.8 mb/d in the first quarter of 2011, a trend which is expected to continue in the coming quarters. As a result, non-OPEC supply growth is forecast at 0.7 mb/d for the year. In addition to higher OPEC NGL volumes, OPEC production also increased by 0.5 mb/d in the first quarter compared to the last quarter of the previous year, even when taking into account the disruption in Libyan supply. Taken together, this shows that the global supply picture remains healthy.

In the refining sector, US utilization rates stood at a low level of 82.8% at the end of April, about 7% below a year ago, despite lower gasoline stocks ahead of the driving season. However, crude oil stocks remain sufficient to provide the necessary refinery inputs once demand picks up (***Graph 2***).

Ample spare capacity, adequate stock levels and lower demand for OPEC crude during the first half of the year are factors that should be sufficient to support market stability. The recent unwarranted volatility, however, highlights the destabilizing impact of excessive speculative activities. Consumers and producers share a common interest in working together to ensure the smooth functioning of the market. Amid considerable uncertainties, OPEC stands ready to meet the real crude oil needs.

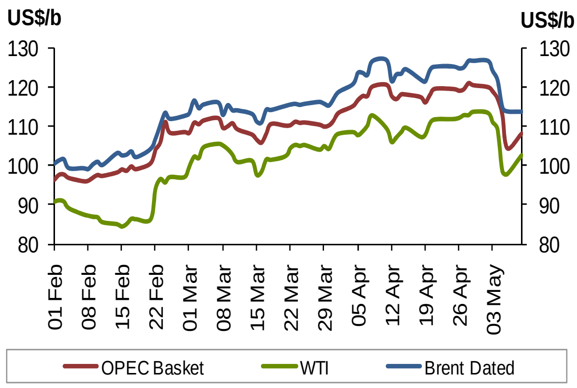
Crude Oil Price Movements

OPEC Basket rose $8.25/b in April to average $118/b

OPEC Reference Basket

The OPEC Reference Basket increased further in April, moving within a range of $115-120/b and supported by the futures market. It even passed the $120/b mark in the second week of the month. That was the first time it had exceeded this level since the first week of August 2008. The Basket weakened in the following days, but rose again to just above $120/b in the final days of the month.

Graph 1.1: Crude oil price movement



For the whole month, the Basket averaged $118.09/b, up $8.25 from March and a gain of $35.76 on a year ago. That was the highest monthly level since the record of $131.22/b of July 2008. April was the ninth consecutive month in which the Basket price had increased.

All Basket components rose, particularly Brent-related African grades, which gained more than $10/b. Algeria's Saharan Blend showed the largest increase of $10.62 or 9.2%, followed by Nigeria's Bonny Light with $10.37 or 8.9%. African crudes continued to be supported by the disruption to Libyan exports. Angola's Girassol rose by $8.39 or 7.3%. Middle East grades also increased, but at lower rates, amid ample supply and limited demand from Japan, because of the extended shutdown of some refineries following the triple catastrophe there. The weakness in Middle East crudes relative to light sweet crudes was reflected in the widening Brent-Dubai differential, which hit multi-year highs of more than $7/b. The premium for Brent over Dubai has made crudes linked to the North Sea benchmark expensive relative to Middle East grades. However, Middle East spot cargoes were sold at strong levels. Qatar's Al-Shaheen sold at premiums of up to $1.40 to Dubai quotes, and Oman cargoes for June were trading at strong premiums of more than $1.30 to Dubai quotes in mid-March, supported by healthy distillate margins. In late-March, the Middle East crude oil market strengthened, as demand from Japan started to show some signs of recovery and Oman crude was heard to be trading at a premium as wide as $1.45/b. Among the Basket's Mideast grades, Iran Heavy rose by more than $8.20, Murban by $8.02 and Kuwait Export by almost $8. Only Arab Light, Basrah Light and Marine displayed gains of less than $8. Venezuela's Merey added a further $8.22 or 8.5% and Ecuador's Oriente gained almost $7.8 or 7.4%.

In early May, the OPEC Reference Basket weakened significantly as market sentiment turned bearish following disappointing macroeconomic data and the recovery in the US dollar. The Basket fell for six consecutive trading days to stand at $104/b on 6 May. However, after declining more than $16.50 in six days, the Basket showed some recovery to stand at $111.48/b on 10 May, lifted by a sharp increase in futures prices.

Table 1.1: OPEC Reference Basket and selected crudes, US$/b

	Mar 11	Apr 11	Change Apr/Mar	Year-to-Date 2010	Year-to-Date 2011
OPEC Reference Basket	**109.84**	**118.09**	**8.25**	**77.20**	**105.28**
Arab Light	110.37	118.27	7.90	77.50	105.88
Basrah Light	109.16	117.05	7.89	76.71	104.53
Bonny Light	116.75	127.12	10.37	79.84	111.92
Es Sider	114.35	124.52	10.17	78.36	109.63
Girassol	115.35	123.74	8.39	78.74	109.95
Iran Heavy	108.05	116.27	8.22	76.89	103.96
Kuwait Export	107.66	115.64	7.98	76.53	103.39
Marine	108.87	116.41	7.54	78.03	104.55
Merey	96.22	104.44	8.22	70.90	92.07
Murban	111.93	119.95	8.02	79.55	107.43
Oriente	105.04	112.82	7.78	72.49	98.28
Saharan Blend	115.95	126.57	10.62	79.10	111.26
Other Crudes					
Minas	114.62	127.19	12.57	82.03	111.67
Dubai	108.71	116.01	7.30	77.80	104.26
Isthmus	107.97	117.90	9.93	78.24	102.76
T.J. Light	105.60	115.31	9.71	76.76	100.57
Brent	114.60	123.72	9.12	78.47	109.63
West Texas Intermediate	102.99	109.89	6.90	80.18	98.02
Urals	111.50	119.60	8.10	77.18	106.56
Differentials					
WTI/Brent	-11.61	-13.83	-2.22	1.70	-11.61
Brent/Dubai	5.89	7.71	1.82	0.67	5.37

Note: Arab Light and other Saudi Arabian crudes as well as Basrah Light preliminarily based on American Crude Market (ACM) and subject to revision

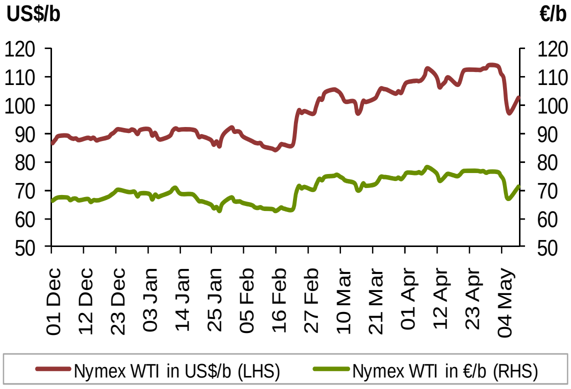
Source: Platt's, Direct Communication and Secretariat's assessments

The oil futures market

Crude oil futures in April rose to their highest level since July 2008

Crude oil futures continued their upward trend in April to reach levels not seen since before the financial crisis of 2008. The rally in prices was driven by supply concerns, due to ongoing geopolitical tensions in some MENA countries.

Graph 1.2: Nymex WTI futures in US$/b and €/b



Nymex WTI increased for the seventh consecutive month to hit a 32-month high of more than $110/b

On the Nymex, the WTI front-month started the month at almost $108/b and increased over the following days, supported by unrest in the MENA region and positive macroeconomic data, including solid job figures from the US, which reinforced economic growth expectations. Prices were also supported by a strike in Gabon and fears of supply disruptions in Nigeria, after elections were postponed by one week. However, prices eased from a 32-month high of nearly $112.8/b during the second week, in a sell-off after Goldman Sachs had advised investors to lock-in trading profits before oil and other commodity markets reversed. Prices were also pressured by a move by China's central bank to increase interest rates for the fourth time in six weeks, in order to curb stubbornly high inflation. Therefore, the WTI front-month lost $2.87 on 11 April and $3.67 on the following day to settle at $106.25/b, the lowest level since the end of March and indeed the lowest for the whole of April. However, futures prices recovered over the following days to follow a steady upward trend and close at $113.93/b on the last trading day of April. Prices were also lifted by a weak US dollar, which hit a three-year low against a basket of currencies during the last week of the month. In addition, product futures, especially gasoline, added more bullishness to the market as US gasoline stocks fell for the tenth consecutive week, pushing gasoline RBOB futures above $3.46/gal on 29 April.

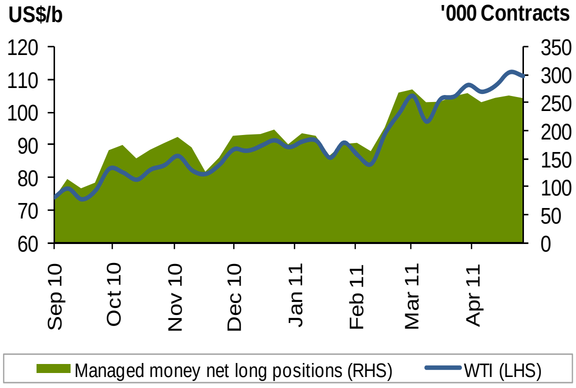
On a monthly basis, the Nymex WTI front-month increased by $7.06 or 6.8% to average $110.04/b. That was the highest level since the $116.69/b of August 2008.

US crude oil futures fell sharply in early May as price-taking unexpectedly triggered a sharp selloff. Market sentiment was also weaker on disappointing macroeconomic data from the US and the Euro-zone as well as a recovery in the US dollar. A continued build in US crude oil inventories also pressured prices. The Nymex WTI front month fell below $100/b on 5 May after having lost nearly $9.5/b, the largest drop in a single day since the onset of the 2008 financial crisis. Prices declined a further $2.62 the following day, pushing the weekly loss to $16.75, the biggest weekly decline ever. However, on 9 May the Nymex WTI front-month contract increased sharply by $5.37/b to settle at $102.55/b, reflecting higher volatility.

ICE Brent increased for the ninth month in a row to average almost $123/b

ICE Brent kept its premium over Nymex WTI and traded in a $119-127/b range in April. The North Sea benchmark gained $8.42 over the previous month, compared with a $7.06 increase for Nymex WTI over the same period.

Graph 1.3: Nymex WTI price vs. Speculative activity



Brent followed a similar trend to Nymex WTI. The contract strengthened in the first week of the month to hit a high of $126.65/b on 8 April, before losing a total of more than $5.7 over the following two days, due to a sell-off triggered by a Goldman Sachs report which advised investors to do this with their crude future positions. Prices eased afterwards, but recovered later to stand at nearly $125.9/b on the last trading day. In April, ICE Brent averaged $123.09/b, the highest level since the $134.56/b of July 2008.

ICE Brent followed the same trend as Nymex WTI in early May and plunged $16.75 in the week ending 6 May with a drop of $10.39 on 5 May alone. That pushed the ICE Brent front month to $109.13/b. Nevertheless, following the same trend as Nymex WTI, June ICE Brent contract jumped by almost $6.8 by 9 May.

The stronger gain in ICE Brent made the transatlantic spread widen in favour of Brent, as the loss of Libyan crude continued to boost light sweet crude in Europe at a time when WTI faced storage facility constraints at Cushing, Oklahoma. Brent's premium to WTI moved back above $13/b to stand at $13.05/b, up $1.36 or 11.6% from the previous month. It is noteworthy that, a year earlier, Brent's premium had stood at just $1.18/b.

While crude oil futures prices continued to increase, trading volumes declined further on both the Nymex and ICE, implying that the high levels of prices were driven more by fear and speculative activity than by the current supply/demand balance. On the Nymex, the volume of WTI contracts traded fell to an average of around 611,600 contracts per day in April, the lowest level so far. In February, more than 955,400 contracts per day of WTI were traded on the Nymex. Similarly, in Europe, the volume of trading ICE Brent contracts dropped again in April to average around 434,200 contracts per day, down from 483,800 in March and 548,000 in February. Altogether, on average 1.1 million contracts per day of Nymex WTI and ICE Brent were traded in April, compared with more than 1.5 million in February. The drop in trading activity was due to uncertainty about expectations on economic recovery over the coming months.

Open interest in US crude oil on the Nymex hit an all-time high of 1,608,194 on the last trading day of April and rose again to 1,625,407 on 2 May, equivalent to more than 1.6 billion barrels of paper oil.

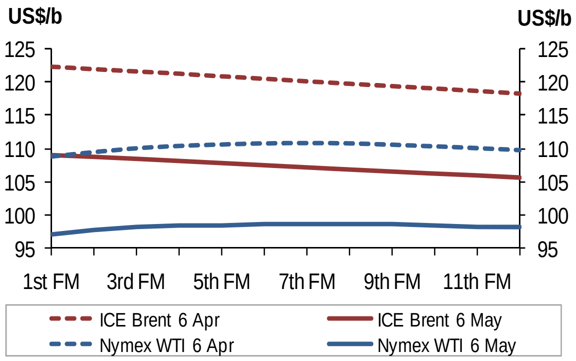
Speculators continued to take profits due to geopolitical tensions, boosting crude net long positions on the Nymex to the second highest level on record at more than 267,500 contracts in the week through 5 April, a week when Nymex WTI gained more than $3.5/b. However, speculators cut positions in the following week to around 251,000 contracts, and the WTI price fell by more than $2/b. But they once again increased net long positions over the following two weeks in line with the increase in the WTI price, which moved from $106.25 to settle at $112.21/b in the week-ending 26 April.

The futures market structure

WTI shifted to backwardation along further months of the curve

Both Nymex WTI and ICE Brent futures curves shifted up in April, but continued to flatten.

Graph 1.4: Nymex WTI and ICE Brent forward curve



FM = future month

Nymex WTI stayed in contango at the front of the curve and was in backwardation starting from the eighth month.

However, the contango narrowed significantly to stand at 54¢/b between the second and the first months, compared with 92¢/b a month ago and $2.73/b in February, as prompt prices witnessed higher gains compared with the forward months. The contango disappeared from the sixth month and shifted into backwardation from the seventh month onward, with the inter-month spread at minus 7¢/b and then widening over the subsequent months.

In contrast, ICE Brent remained in backwardation along the curve, but intermonth spreads widened, particularly at the front of the curve. The spread between the second and the first months rose from minus 7¢/b in March to minus 38¢/b and the spread between the 12th and the 11th months rose to minus 42¢/b, compared with minus 30¢/b a month ago.

The difference in the structure between Nymex WTI and ICE Brent – with WTI in contango at the front of the curve and ICE Brent in backwardation – can be attributed to the fact that Nymex WTI prompt months remained under pressure from ample stocks at Cushing, Oklahoma, while Brent received support from Libya's lost production.

Table 1.2: Nymex WTI and ICE Brent forward price, US$/b

	1st FM	2nd FM	3rd FM	6th FM	12th FM
Nymex WTI					
6 Apr 2011	108.83	109.48	110.05	110.77	109.78
6 May 2011	97.18	97.77	98.14	98.65	98.20
ICE Brent					
6 Apr 2011	122.30	121.93	121.59	120.49	118.26
6 May 2011	109.13	108.85	108.58	107.51	105.57

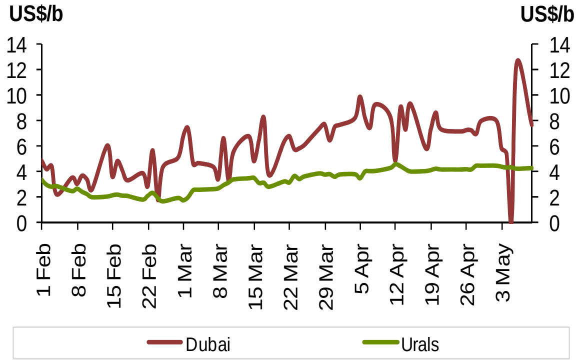
FM = future month

Sweet-sour spread widened significantly in April

The sour/sweet crude spread

The sweet-sour spread widened further in April as Libyan crude oil production remained affected by present developments, while the production of heavy sour grades increased in an attempt to replace lost Libyan exports.

Graph 1.5: Brent Dated vs. Sour grades (Urals and Dubai) spread



In Europe, ample supply of Russian crude and the strong Brent benchmark made the Brent-Urals spread widen further in April to average more than $4.1/b, up $1 from the previous month. The spread moved to nearly $4.6/b on 12 April. That was the lowest level since August 2008. The huge differential for Urals was also driven by low utilization rates at refineries in Europe and pressure from some Middle Eastern grades, as the strong Brent-Dubai spread kept arbitrage open for Middle Eastern crude.

The differential was much higher between Brent and Dubai. The Brent-Dubai spread rose sharply to average more than $7.7/b in April, up 31% from March. The differential even moved above $9.8/b on 5 April. However, the increase would have been much higher if we had considered the period January-April. The Brent-Dubai spread averaged almost $5.40/b over the first four months of 2011, compared with just 67¢/b a year earlier. The premium for Brent over Dubai has made crude grades linked to the North Sea benchmark expensive, relative to crudes available from the Middle East Gulf.

The spread was much higher in the Asia-Pacific region, where the Brent premium to Dubai jumped to almost $5.9/b in March. On a daily basis, the spread was even higher, reaching nearly $7.7/b at the end of March, before widening further in the following days to hit $9.83/b on 5 April. That was the highest since October 2004, when the market was flooded with heavy sour crude. The huge spread between Brent and Dubai was exacerbated by brisk demand for sweet grades from Japan for power-generation, following the shutdown of nuclear plants in Japan, due to the triple catastrophe. It is worth noting that, in addition to the absence of Libyan exports, Brent benefited from the disruption to output from Gabon in early April, because of a strike. The widening Brent-Dubai spread reduced arbitrage opportunities for Russian and West African grades to the Asia-Pacific region and made Middle Eastern crudes more attractive to Eastern refiners.

In the US, the situation was different, as WTI has, to some extent, lost its role as a reference, because of limited storage facilities. WTI continued to trade below Mars sour for the fifth consecutive month, but the discount narrowed to around $6/b, compared with almost $11/b in February. In contrast, the differential between Light Louisiana Sweet and WTI widened to $16.14/b, up $1.72 or 12% from March.

Commodity Markets

Commodity markets saw diverse movements in April

Trends in selected commodity markets

The World Bank (WB) energy index rose by 6.5% m-o-m for a ninth straight month in April driven by the conflict in the MENA region. The non-fuel commodity price index increased by 2% in April compared to a 4.8% m-o-m fall a month earlier. Precious metals, some grains and few base metals partly offset a sharp fall in other commodities.

Table 2.1: Commodity price data, 2011

Commodity	Monthly averages			% Change		
	Feb 11	Mar 11	Apr 11	Feb/Jan	Mar/Feb	Apr/Mar
World Bank commodity price indices for low and middle income countries (2000 = 100)						
Energy	333.7	365.4	389.1	4.4	9.5	6.5
Coal, Australia	128.4	126.1	123.0	-3.1	-1.7	-2.5
Crude oil, average	97.9	108.6	116.2	5.6	11.0	7.0
Crude oil, Brent	104.0	114.4	123.1	8.0	10.1	7.5
Crude oil, WTI	89.5	102.9	110.0	0.1	14.9	6.8
Natural gas index	163.3	162.7	176.6	-4.0	-0.4	8.5
Natural gas, US	4.1	4.0	4.2	-9.3	-2.5	6.8
Non Energy	350.7	333.7	340.4	4.8	-4.8	2.0
Agriculture	311.0	295.5	299.8	5.6	-5.0	1.5
Beverages	312.7	312.1	306.4	8.0	-0.2	-1.8
Food	292.6	277.4	279.9	2.8	-5.2	0.9
Soybean meal	442.0	418.0	403.0	-2.0	-5.4	-3.6
Soybean oil	1365.0	1307.0	1314.0	-0.7	-4.2	0.5
Soybeans	570.0	553.0	556.0	-0.3	-3.0	0.5
Grains	299.8	287.4	304.0	6.7	-4.1	5.8
Maize	292.9	290.5	319.3	10.5	-0.8	9.9
Sorghum	253.2	266.1	289.6	2.8	5.1	8.8
Wheat, Canada	474.1	432.5	460.9	7.6	-8.8	6.6
Wheat, US, HRW	348.1	316.7	336.1	6.6	-9.0	6.1
Wheat, US, SRW	338.8	303.1	314.9	5.7	-10.5	3.9
Sugar US	87.4	87.5	84.3	3.1	0.1	-3.7
Raw Materials	354.8	331.0	344.7	10.4	-6.7	4.1
Fertilizers	346.8	335.9	361.8	-0.3	-3.2	7.7
Base Metals	382.0	370.9	374.2	4.1	-2.9	0.9
Aluminum	2508.2	2555.5	2678.1	2.8	1.9	4.8
Copper	9867.6	9503.4	9492.8	3.3	-3.7	-0.1
Iron ore, spot, cfr China	187.2	169.4	179.3	4.5	-9.5	5.9
Lead	258.7	262.4	270.1	-0.6	1.4	2.9
Nickel	28252.3	26710.4	26408.3	10.2	-5.5	-1.1
Steel products index	245.5	265.1	272.5	1.9	8.0	2.8
Tin	3152.6	3059.1	3236.3	14.8	-3.0	5.8
Zinc	246.5	234.1	236.2	3.9	-5.0	0.9
Precious Metals						
Gold	1372.7	1424.0	1479.8	1.2	3.7	3.9
Silver	3085.8	3594.6	4279.8	8.1	16.5	19.1

Source: World Bank, Commodity price data

The dynamics of the commodity markets experienced a strong change in the first quarter of 2011 compared to 2010 as a whole, especially in the fourth quarter of last year. Following the broad-based good performance in commodity markets in 4Q10 due to strong fundamentals, an improvement in market sentiment and some supply concerns – all factors which were expected to last – most commodity markets plummeted that month owing to the mixed effects of the political problems in the MENA region and the direct consequences of the tragic events in Japan. These events have had far reaching consequences on supply and demand of key commodities, and at the same time, other commodities have been influenced by the re-emergence of pessimism about demand growth and prospects of the global economy.

The market dynamics in April responded to similar factors from a month earlier such as the crisis in the MENA region, the triple disaster in Japan and the potential risk posed by higher oil prices for the global economy. Furthermore, there was some bearish news in April such as the interest rate increase in China for the third time since last October, and the lowered growth forecast for US and Japan posed by the IMF. These factors offset the weakening of the US dollar

The **WB energy commodity price index** (crude oil, natural gas and coal) rose again by 6.5% m-o-m in April. Except for coal, the rest of the complex showed strength.

Henry Hub (HH) natural gas prices reversed the fall the March, increasing by 6.8% m-o-m to $4.24/MMbtu. Most of the price increase took place at the end of April due to colder temperatures for consuming regions and the spring maintenance of a number of nuclear plants. Working natural gas in storage rose to 1.685 bcf as of 22 April, according to the EIA’s Weekly Natural Gas Storage Report. Stocks are 215 bcf below last year’s level and 11bcf below the 5-year average. The EIA also expects record US natural gas production in 2011 of 63.32 bcf per day, and assuming demand to grow this year by 2.6%, this implies that in the absence of serious production cuts the market will continue in surplus.

The WB non-energy commodity price index recovered by 2% m-o-m compared to a decrease of 4.8% in March. There was a slight rebound in a few industrial metals but more of the support came from the grain complex and to a lesser extent soybean and soybean oil. Precious metals kept increasing, but at a slower pace.

Non-energy commodity markets also divergent with gains in precious metals and some grains, but marginal growth in base metals

Base metal prices rose a slight 0.9% m-o-m in April compared to a 2.9% m-o-m fall in March mainly on fundamental news, pessimism on demand growth and some mixed macroeconomic data. Prices in the base complex were pushed in diverging directions by market sentiment. Some observers argue that the falling trend in base metals has been exaggerated and some metals such as copper and nickel have strong fundamentals which may led to a revival once the macroeconomic fears rescind. Aluminium, lead and tin performed the best in April within the complex.

Aluminium prices advanced further by 4.8% m-o-m to around $2,678/tonnes in April, the highest price since August 2008. Despite the negative impact of the earthquake on aluminium demand in Japan with its aluminium-intensive auto sector, aluminium prices remained strong on the back of rising crude oil prices and associated higher production costs, and the risk premium added by the conflict in the MENA region, where several of the new and most important capacity smelters and projects are located. MENA’s share of aluminium production (8% of global supply) is the largest within the base metal complex. Regardless of these bullish events, the aluminium market remains oversupplied with the production having increased by 7% to 6,248 kt q-o-q in 1Q11 according to the International Aluminium Institute, with London Metal Exchange (LME) inventories still very high. Prices may be driven in the short term by the situation in MENA and Chinese capacity restrictions, but the outlook is for softer prices. Finally, aluminium stocks on the exchanges should be closely monitored due to historical low interest rates which have led to significant inventories of aluminium being held off-exchange. A further rise in interest rates may cause stocking off-exchange to become unprofitable, causing a flood of stocks into exchange warehouses.

Lead prices rose 2.9% m-o-m to $2,700/tonnes in April but prices were very volatile reaching a 3-year high in the first 10 days of April, but declined thereafter. The price jump in early April followed the closure of the Magellan mine in Australia. Nevertheless, following the record prices and the cash to 3-month LME price-rise above US$50-70/t, stockists moved lead inventories to LME ware houses in order to sell and lock in profits causing a 10% increase in the LME inventories to stand at a 16%-year high. It must be noted that lead inventories have risen by 50% since the beginning of the year. All major observers agree on the existence of market surplus in 2011.

Nickel prices saw a milder fall of by 1% m-o-m to US$26,408/tonnes in April compared to a sharp 5.5% drop in March caused by the earthquake in Japan. Nickel prices were supported in April by the combined effect of the global sell-off of LME base metals and the recovery of Japanese steel mills following the earthquake/tsunami natural disaster. Contrarily, news about some incoming projects may be a bearish factor, but nickel inventories declined by 4.9% m-o-m to 120,317 tonnes in April and the nickel market is expected to remain in deficit for the rest of 2011 as the new capacities are not to come before 2012. The outlook for nickel prices posed some uncertainties given that observers have different estimates of the balance in 2011 with the International Nickel Study Group projecting a 60kt surplus but others, like Brook Hunt, estimating a 30 kt deficit.

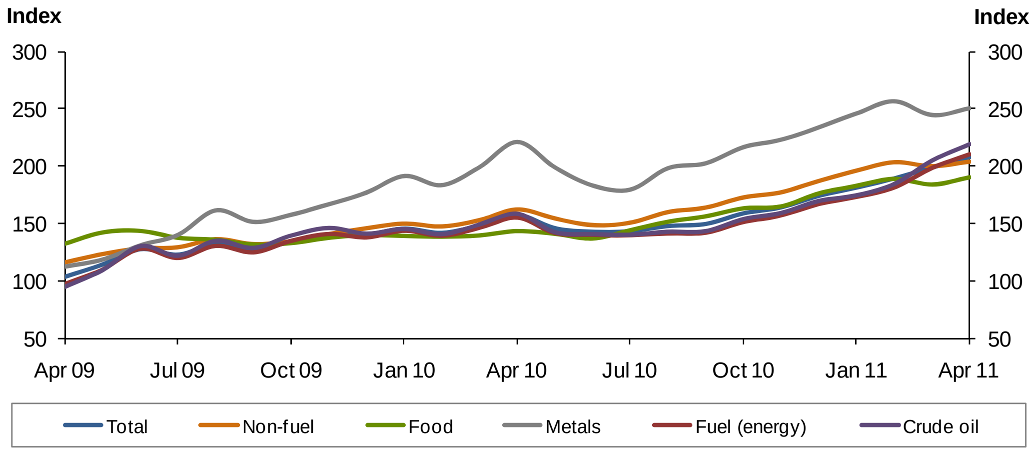
Zinc prices rose 0.9% m-o-m to $2.360/tonne in April, essentially on weak fundamentals. Zinc inventories at the LME increased by 5% m-o-m to 770,418 tonnes, a level not seen since 1995. The International Lead and Zinc Study Group (ILZSG), estimates that the market will be in surplus for the fifth consecutive year in 2011 by 200 kt, but Brook Hunt estimates a 450 kt surplus.

Copper prices dropped 0.1% m-o-m to US$9,493/tonne in April, compared to a 3.7% fall in March. Copper prices were again very volatile in the middle of bearish and bullish factors The 25 basis point-rise in the lending rate by the Chinese central bank – the fourth time since October – weighed on copper prices as did fears of the possible release of important Chinese stocks into the market, leading to a reduction in the deficit expected this year. Codelco, the world's major copper producer, expressed concern that high levels of copper held by China could become a source of instability for the market, but it is difficult to know if the metal will make its way to the market or not. It seems that the key driver for copper demand will be the Chinese policy to control inflation.

Tin prices rebounded by 5.8% m-o-m to $32,363/tonne in April despite record inventories at the LME owing to the crackdown on illegal mines in Indonesia and the application of the Dodd Frank regulation.

Gold prices posted another gain of by 3.9% m-o-m to $1,479.8/oz in April and silver jumped by 19% m-o-m to $42,80/oz supported by a combination of growing inflation expectations, a low US real interest rate and mixed sentiment concerning downside risks to the global recovery.

Graph 2.1: Major commodity price indexes, 2009-2011



Commodity price index, 2005 = 100

Total:	*Includes both fuel and non-fuel*
Non-fuel:	*Includes food and beverages and industrial inputs*
Food:	*Includes cereal, vegetable oils, meat, seafood, sugar, bananas and oranges*
Metals:	*Includes copper, aluminum, iron ore, tin, nickel, zinc, lead and uranium*
Fuel (energy):	*Includes crude oil (petroleum), natural gas and coal*
Crude oil:	*Is the simple average of three spot prices: Dated Brent, West Texas Intermediate and Dubai Fateh*

Source: IMF

Agricultural prices rebounded 1.5% m-o-m in April following a 4.9% fall in March

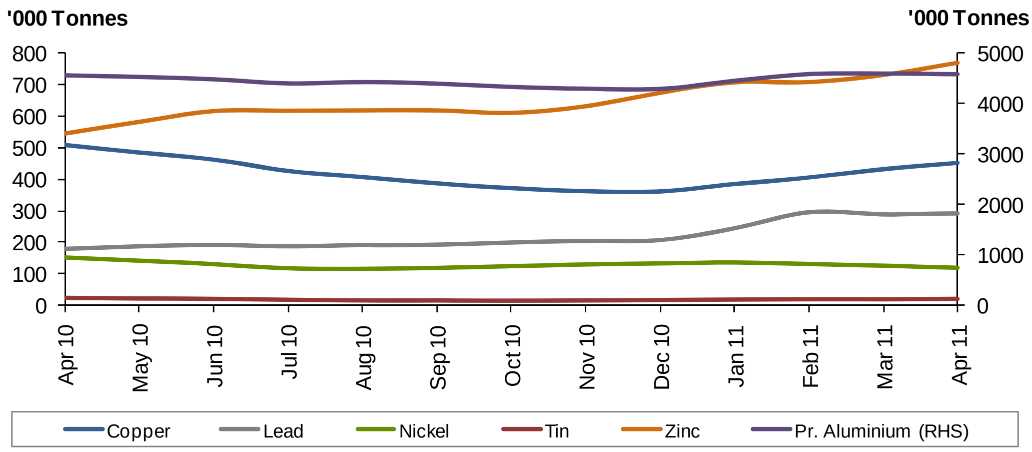
Corn prices jumped by 9.9% m-o-m to $319.3/mt in April reversing the drop in March which was due to the tragic events in Japan. Corn prices achieved an all-time high record on a bullish mood at the CBOT, a higher demand for feed exports and a strong demand for ethanol, as crude oil prices keep growing. Additionally, a weak US dollar and wet weather in the US has caused delays the corn planting adding concern to a market characterised by low inventories. The USDA raised estimates of corn production owing to expected better crops in Brazil, but the global demand forecast was also increased and ending-stocks are at a 15-year low. Although corn prices may drop from current levels, it is expected that they will remain high on strong demand.

Sugar prices at the US markets tumbled by 3.7% m-o-m to 84.3¢/kg in April basically on the removal of the Indian export ban. For the third consecutive month, sugar markets answered to mixed fundamentals. Despite lower production in China, higher supply is expected from Brazil, India and Mexico. In addition, many observers agree that after the effect of El Nino and La Nina last year, sugar production is expected to reach normal levels. The bearish mood of strategical investors at the ICE also added to downward pressure on sugar prices.

US soft red **wheat** (SRW) prices rose 3.9% m-o-m to $314.9/mt, after a sharp decrease a month earlier. Wheat prices gained support from weather conditions such as lack of rain in Europe and dryness in the US hard red wheat planting belt. However, prices declined by the end of April as positive news on production for this year was published. According to the latest USDA forecast, global stocks are still high at 183 mt. Uncertainties only come from the time when ban removals in the Black Sea countries are materialised.

Soybean prices hardly grew by 0.5% m-o-m to $556/mt in April, mainly on expected good production from Brazil and a bearish mood in the futures markets where investors thought that the wet weather in the US corn belt would force farmers to increase acreages of soybean instead of corn. News of lower demand for oil seeds from China and India also added pressure to the market.

Graph 2.2: Inventories at the LME



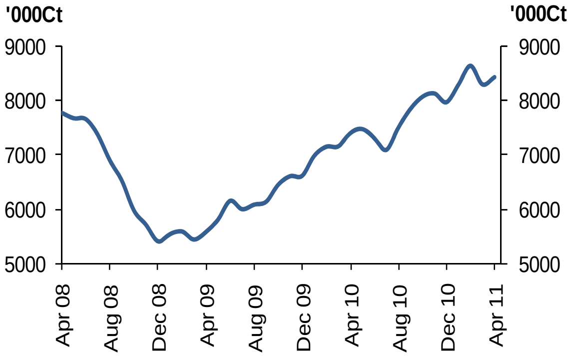
Investment flows into commodities

Open interest rose 1.7% m-o-m in April

Data from the CFTC indicates some recovery in the open interest volume (OIV) of major commodity markets in the US, as it moved up by 1.7% m-o-m to 8,567,002 contracts in April. The major gainers were agriculture and livestocks.

Long positions of money managers recovered, rising by 2.6% m-o-m to 1,868,288 contracts in April while shorts also increased by 1.8% m-o-m to 514,199 contracts.

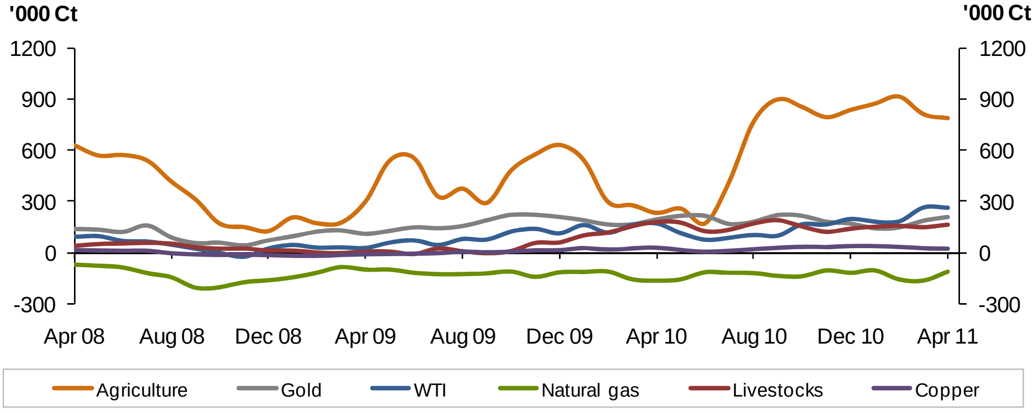
Graph 2.3: Total open interest volume



Source: CFTC

Thus, the net length of speculative positions went up by 4.4% m-o-m to 1354.089 contracts in April, and, as percentage of OIV, increased to 72.5% from 71.3 in March. This development partly reflected a recovery in the investors' mood, one month after the tragic events in Japan.

Graph 2.4: Speculative activity in key commodities, net length

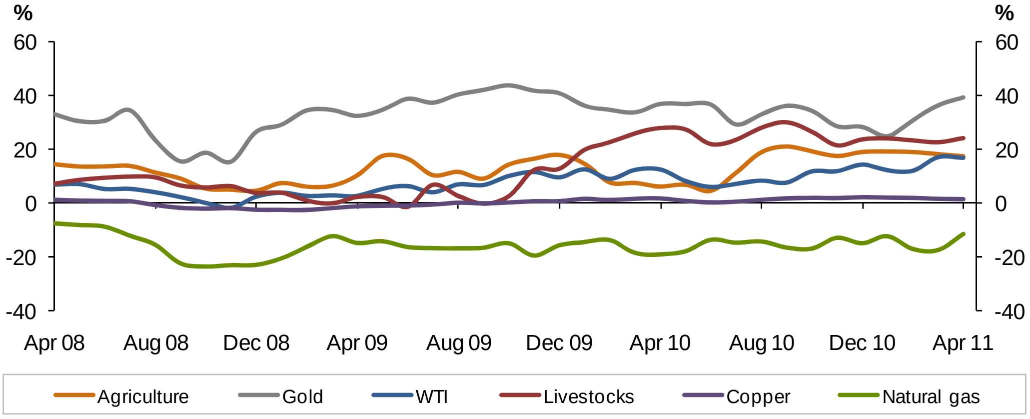


Source: CFTC

Agricultural OIV increased by 1.6% m-o-m to 4,595,378 contracts in April. Money manager's long positions recovered partly, and went up by 1.7% m-o-m to 987,812 contracts in April with shorts increasing 24.5% m-o-m to 200,317 contracts.

Thus, the speculative net length declined by 2.9% m-o-m to 787,495 contracts, while speculative net length as percentage of OIV slightly moved down from 17.9% in March to 17.1% in April.

Graph 2.5: Speculative activity in key commodities, as % of open interest



Source: CFTC

Precious metal OIV rose by 3.6% m-o-m to 666,977 contracts in March. Money managers' long positions increased by 7.2% m-o-m to 244,354 contracts in April but the pace of growth slowed from 15% in the previous month; as short positions increased by 0.7% m-o-m to 11,579 contracts in April. Speculative net length witnessed a more modest increase of 7.5% m-o-m to 232,775 contracts compared to a 22% increase a month earlier. The money managers' net length rose to 34.9% in April from 33.6% in March. The more modest activity of strategic investors may suggest that concerns over the macro events eased somewhat in April.

Nymex natural gas OIV rose by 1.7% m-o-m to 941,365 contracts. A recovery took place in money manager long positions, which rose by 6.4% m-o-m to 114,900 contracts in April while a strong 17% fall in shorts to 224,373 contracts left the speculative net length as percentage of OIV at minus11.6%, up from minus17.6% in March.

Copper OIV declined by 2.8% m-o-m to 134,902 contracts in April, down from a fourth straight month, although the drop moderated compared to March. Both speculative long and short positions declined again by 8.5% m-o-m and 5.3% respectively, but the trends softened compared to the previous month. Therefore, net speculative length fell from 16.8 percentage points (pp) in March to 15.4 pp in April.

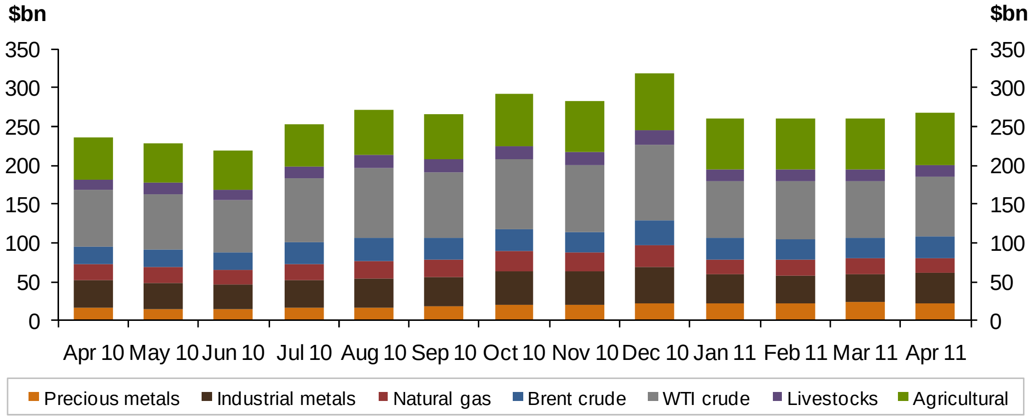
Table 2.2: CFTC data on non-commercial positions, '000 contracts

	Open interest		Net length			
	Feb 11	Apr 11	Mar 11	% OIV	Apr 11	% OIV
Crude Oil	1548	1561	262	17	260	17
Natural Gas	926	941	-163	-18	-109	-12
Agriculture	4522	4595	811	18	787	17
Precious Metals	644	667	217	34	233	35
Copper	139	135	23	17	21	15
Livestock	649	667	148	23	162	24
Total	**8,428**	**8,567**	**1,297**	**15**	**1,354**	**16**

Crude oil leading gains in investment flows

The dollar inflow of investment into the major commodity indices rose by 3% m-o-m in April, with crude oil leading gains.

Graph 2.6: Inflow of investment into commodities, 2010-2011



Source: CFTC

World Economy

Table 3.1: Economic growth rates 2010-2011,%

	World	OECD	US	Japan	Euro-zone	China	India
2010	4.7	2.8	2.9	3.9	1.7	10.3	8.5
2011	3.9	2.1	2.6	-0.1	1.7	9.0	8.1

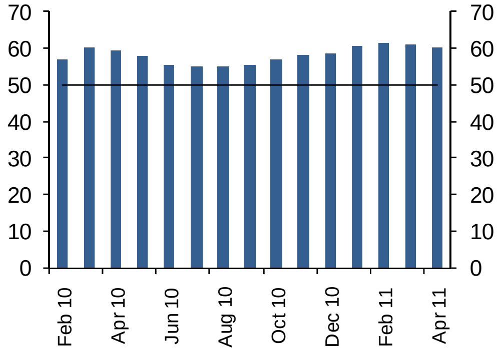
Industrialised countries

US

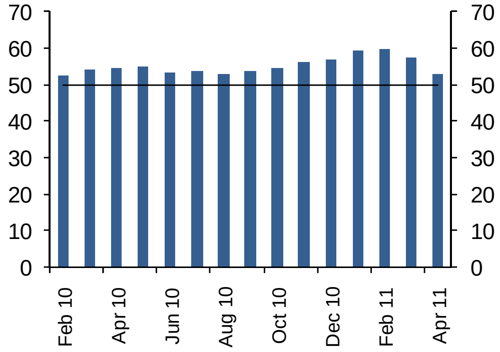
US economy experienced a slowdown in the first quarter

The most recent data from the US was slightly weaker than expected and shows that the economy has experienced a recent slowdown. The initial estimate for GDP in the first quarter of 2011 was only 1.8% annualized quarterly growth. This compares with a level of 3.1% in 4Q10. The unemployment rate moved back to 9.0%, compared with 8.8% previously. The Institute for Supply Management (ISM) index for non-manufacturing activity, which constitutes more than two-thirds of the economy, declined considerably. Retail trade recorded the smallest rise since July 2010 and inflation has risen significantly in March. On the other hand, some forward-looking indicators hint at a potential uptick in the second quarter. Non-farm payroll additions were better-than-expected, consumer credit continued its expanding trend and factory orders were strong in April. However, when analyzing the data at a slightly more detailed level, the impression is that the recovery is losing some momentum.

Graph 3.1: ISM manufacturing index



Graph 3.2: ISM non-manufacturing index



Source: Institute for Supply Management

The lower figure for first quarter US GDP is mainly attributable to the fact that government expenditure declined by 5.2%. This was the steepest drop since 2007 and, although it is not expected to continue, the decline will potentially have an impact on the magnitude of annual growth. It might also signal the stretched balance sheet of the government, but it could be too early to conclude that. Secondly, it should be highlighted that the GDP figure is likely to be subject to further revision over the coming weeks, when two more readings of 1Q11 GDP will be released. The sharp drop was caused mainly by a decline of 11.7% in defense outlays that could be due to timing, rather than real spending cuts. On the other hand, personal consumption was still strong with growth at 2.7%, in line with the average levels of last year. With the announcement by the Federal Reserve Board to end the quantitative easing programme by June, data giving an indication of growth in the second half of 2011 has to be monitored carefully.

While the labour market improved, the unemployment rate moved back to 9.0% in April

One of the most important gauges for the Fed is the labour market situation, and, while it has improved, supported by fiscal and monetary stimuli, it gave mixed signals in April, with the unemployment rate increasing to 9.0% from 8.8% in March. More importantly, with job additions surprising on the upside, which is a positive sign. Non-farm payrolls have increased by 244,000, the strongest level for almost a year. But, despite this steady increase, it is still volatile and it remains to be seen how it will develop. The number of people unemployed for more than 27 weeks has come down slightly in recent months to stand at the lowest level for 18 months, at 5.8 mn in April, compared with a peak of 6.7 mn in May 2010. Still, the number is very high and far above historic averages, not only in absolute terms, but also in relation to the unemployed population. The percentage of unemployed for more than 27 weeks, in relation to the unemployed labour force, now stands at 43.4%, not very much lower than the level of 45.5% in March. This high level, in general, should be considered unhealthy for the economy, as the long-term unemployed are losing skills and reintegration can turn out to be costly.

The ISM gave the indication of an economy that, while it continues recovering, is slowing down a little. The ISM for the manufacturing sector has held levels well at 60.4 in April from 61.2 in March, and so it has not changed very much. On the other side, this is the fourth consecutive month that it is holding up above the 60 level. The last time this happened was only in the months of March to June in 2004, and usually such a level marks a peak. To see a level that has been higher, one has to go back to 1983, when it reached 66 in May. This was accompanied by a peak GDP growth level of 9.3% annualized quarterly growth in 2Q83; after this level, the economy decelerated. Furthermore, the ISM for the non-manufacturing sector has experienced a sharp drop already, moving from the March level of 57.3 to 52.8. Considering that this sector is responsible for more than two thirds of the economy, it should be at least considered as a cautionary signal that this side of the economy appears to be decelerating.

Consumer spending has experienced some slowdown. Retail trade, at 0.4% m-o-m, was at its lowest level since July 2010, potentially affected by rising inflation, which hit 2.7% y-o-y in April, after 2.2% in February. This is driven mainly by food and energy prices, and therefore the Fed considers that this level will be only temporary. Consumer confidence, while it has declined a little, is holding up well so far. The Conference Board Consumer Confidence Index was at 65.4 in April, increasing from 63.8 in March, signalling a continued positive spending habit. This is accompanied by a continued pick-up in consumer credits. Consumer credit loans rose by $6.0 bn, which is again in line with historical averages and marks the sixth consecutive month of rising consumer debt.

While the economy is recovering and is still being supported by the additional fiscal stimulus measures introduced at the end of last year and by the monetary support programme of the Fed through low interest rates and the quantitative easing programme, which will expire in June, it seems to have lost at least some momentum. While a pick-up in the remainder of the year should be expected, the expansion is expected to be at a lower level than in the previous year. Although the economy is demonstrating robustness, it does not seem to be able to grow much more, particularly with a still – albeit improving – challenging labour market and support measures that are tapering off throughout the year. The economy is, therefore, now expected to grow at 2.6%, a slight slowdown from last year's 2.9%, with the risk of further revisions to the upside or the downside currently evenly balanced.

Japan

Economic situation in Japan remains uncertain with preliminary data pointing to a strong contraction which could persist over the coming months

The Japanese economy is still facing the challenges of the tragic events of March and it remains unclear how the economy will develop in the near future. First indications lead to the conclusion that the economy has been deeply affected by those tragic events, and growth in the first three quarters of this year is currently expected to be negative. The economy is even more affected by these events, when one considers that it was growing mainly through government-led stimuli in the past year. When the significant fiscal stimulus measures ended by the end of 3Q10, it turned out that the economy was still very weak and that, without this support, it was unable to expand; and so growth turned negative, ending the 4Q10 at minus 1.3% annualized quarterly growth. At that time, it was expected that growth would resume in the 1Q11 and that, therefore, technically this decline in the 4Q10 should not be considered a recession. This certainly has changed and it seems that Japan again is facing a severe recession this year, having already started at the end of last year.

While the cost-impact of the March events has been estimated by the Japanese government at up to 25,000 trillion yen (around 4% of GDP), this number was only an early estimate from March and has not been revised yet; and so, due to the ongoing power shortages, it might be even higher. While this number at least gives an indication of the necessary reconstruction costs, it is not known in detail how the reconstruction and the necessary stimuli for the economy will be managed. Due to the holiday season at the beginning of May, there is not much new data available that is capturing the status of the economy after 11 March; but the data that has been released so far shows a bleak situation with major declines.

Auto sales declined by 51% in March, the steepest fall on record

One of the first data sets issued for April is automobile sales, which fell by 51% m-o-m in April. This comes after a 37% m-o-m decline in March. Factory output already declined by 15.3% m-o-m in March, the strongest decline on record, and is expected to show a further decline for April. When comparing this with the factory output after the 1995 Kobe earthquake, this is a much more severe decline, since, at that time, production fell by only 2.7%. Furthermore, the Purchasing Managers' Index (PMI) for April has fallen further, according to Markit. The figure dropped to 36.1 in March, pointing to a severe contraction of the economy. This figure came after a February level of 51.0. Now, the most recent April level was at 35.0, marking a new low, matched only by the figure from January 2009 that stood at 30.1.

The estimate for this year's GDP development has not changed. The magnitude of the GDP impact for the three affected provinces is estimated at 6% of GDP. In addition to that, a 1% GDP impact has been considered due to the interaction of the rest of the economy with the three provinces most affected by the earthquake. Countermeasures of the government in the range of US $200 billion were accounted for in the current forecast, starting in the second quarter and spread almost equally over the remainder of the year to fade slightly in the fourth quarter. The first half of 2011 is considered to have suffered the biggest impact from recent events, while the second half should see some growth, due to catch-up effects and the expected government support. Quarterly growth is expected to turn positive in only the last quarter. As further shutdowns of nuclear reactors have been announced over recent weeks, power supply remains significantly reduced, with repercussions for production.

The economic uncertainty remains high and more information will be available only later in the month. Given this unclear situation, but considering the scenario that the government will soon start to invest, the forecast for 2011 remained unchanged at minus 0.1%.

Euro-zone

Euro-zone economy gained traction with industrial production, mainly in Germany and France, expected to continue growing

The Euro-zone continues to be characterized by a two-tier development, a situation that has existed since the near-default of Greece in 2010. The Euro-zone as a whole enjoys a remarkable recovery, particularly taking into account the challenges of the sovereign debt situation of the peripheral countries. And, while concern about the sovereign debt issue went away somewhat in the first quarter of the year, it has since returned.

Portugal's ten-year bond again reached a more than 10% yield at the end of April, after trading only in January at around 7%. By the end of the second quarter of 2011, Portugal had to refinance 9.5 bn euros and it remains to be seen whether it manages to do so. Greece has just been downgraded again by Standard & Poors, the rating agency. This comes at a time when Euro-zone officials acknowledged that last year's 110 billion euro package was insufficient and that the country would again need support. As has been highlighted by some observers, the country has been on a so-called "junk-rating" now for more than a year and countries that are exposed to this classification are potentially facing default, as shown by research from the International Monetary Fund (IMF). The ten-year yield of the country reached more than 15% by the end of April, putting a huge risk-premium on the country's debt. Ireland's ten-year debt reached almost 11% at the end of April. And, while at risk, Spain managed to calm fears about its debt situation, paying only 5.3%, but it remains to be seen how it might develop with a struggling economy.

Germany is leading the recovery still and is experiencing higher domestic demand, together with strong exports. March exports achieved a record 15.8% y-o-y and, in absolute terms, reached the highest level since records began in 1950. Imports also rose significantly by 16.9% y-o-y. It should be highlighted that the trend is slowing, when compared with last year's levels, but the monthly trend is still strong and, at a growth rate of 16.9% m-o-m, it was the highest increase for a year. France also had a very successful March, when exports rose by 18.3% m-o-m, or 15% y-o-y. In absolute terms too, this marked a new record. This strength of the biggest economies in the Euro-zone is the main antidote to the problems of the smaller and weaker economies.

Industrial production was also expanding. In Germany, production figures increased by 10.7% y-o-y, running at double-digit levels for more than one year, excluding October. The latest figure for France, while smaller, was supportive at 5.6% y-o-y. The number of manufacturing orders suggests that this trend will most likely continue. The latest figure for the euro-area released for February was up by 21.2% y-o-y, and the German figure – already available for March – was up by 14.4% y-o-y. This is accompanied by again increasing levels of the PMI. The composite PMI for April now stands at 57.8, slightly higher than the 57.5 of March, but holding up very well and pointing to continued expansion. All this leads to the conclusion that the expansion of the first half of this year is on a sound footing, while it remains to be seen how it will develop in the second half.

Besides the sovereign debt situation, the labour market remains a concern. The unemployment rate is now at 9.9%, the same as in February, and again the differences between the successful countries and the weaker ones cannot be more pronounced, with Spain reaching 20.7% unemployed – a new negative record – while that of Germany stands at 6.3%, the lowest level since the beginning of the 1990s. France is also moving down, with its unemployed now standing at 9.5%. Again it should be highlighted that youth unemployment is stunningly high in Spain at a new record of 44.6%, compared with an already high level for the Euro-zone of 19.8%.

Another challenge is inflation. In April, this was recorded at 2.8%, again higher than in March, when it reached 2.7%. This is still far above the level that the European Central Bank (ECB) considers to be healthy, namely around 2%. This was highlighted too at the most recent ECB meetings. But, at the same time it referred to the fact that the main sources of inflation are energy and food prices and that the current levels should consequently be considered as temporary. The key policy rate, therefore, was kept at 1.25%, and further interest rate hikes are considered likely only later in the year.

Given the fact that the Euro-zone's low growth dynamic has gained traction recently, the growth forecast for 2011 has been raised to 1.7% from 1.5%. But many challenges remain, which could dampen growth expectations quickly.

Emerging markets

Developing and emerging markets comprise about 48% of global GDP, on purchasing power parity terms. China, with 13.6% of world GDP, is the largest emerging market by far, followed by India, Russia and Brazil, with 5.4%, 3% and 2.9% of world GDP respectively. As emerging economies grow faster than OECD countries, their share of the world economy is bound to increase in the coming years. The rapid expansion of emerging economies is particularly interesting for commodity- and energy-exporting countries, as the main portion of the incremental increase in demand for commodity and oil stems from developing economy growth. Currently, in many emerging and developing economies, GDP is growing above pre-crisis levels. According to the IMF's world outlook report for April 2011, the output from all developing countries is about 2.5% above the 1997-2006 trends. Developing Asia and Latin America stand about 7% and 2% above the 1997-2006 trends respectively. Output in Sub-Saharan Africa and the Middle East has returned to pre-crisis trends. In some emerging markets, however, namely Mexico, Russia and Turkey, output is still below the pre-crisis levels. In major emerging markets, unemployment rates are below pre-crisis levels.

Inflation, however, has emerged as a main concern in developing countries. Headline inflation is now around 6%, that is, 25 basis points more than the inflation rate of 5.75% in January 2010. In some major emerging markets, such as India and Brazil, inflation is running close to, or above, the authorities' targets. Strong fiscal expansion and the credit boom have been distinguishing features of the post-crisis developments in major emerging markets. In many cases, budget deficit-to-GDP ratios have exceeded prudent levels and, in some emerging markets, credit growth has registered between 10-20% per year, doubling the real per capita credit in the last five years. For these reasons, inflation has become a major concern in major developing countries, as many of these economies operate close to their potential levels.

The main challenges facing developing and emerging countries in the current circumstances range from accelerating inflationary pressure, particularly in food and energy prices, capital inflows in emerging economies with open financial markets and an appreciation in exchange rates and high rates of unemployment in some developing countries. The unbalanced recovery between advanced and emerging economies, on the other hand, has resulted in global demand imbalances. Solving these problems requires a delicate combination of fiscal stance and monetary policies, to avoid overheating and accelerating inflation in major emerging markets, with interest rates and exchange rates determined close to their equilibrium levels, to address global demand imbalances.

The performance of major developing countries in the first quarter of 2011 has been better than expected and currently the global market recovery is being driven by continued strong economic growth in emerging markets. There are signs of a sustainable increase in output in the OECD, too. The world economic recovery is reflected in the significant expansion of international trade. According to the World Trade Organization (WTO), trade volumes are expected to grow by more than 6.5% in 2011, after strong growth of 12.7% in 2010. Asia is expected to remain the fastest growing region in 2011. This is attributed to two factors: stronger fundamentals and the emergence of China as an independent engine of regional growth. Although the US is still the main source of final demand for Asia as a whole, according to research by the European Central Bank, China is now a greater source of final demand for the Philippines, South Korea and Taiwan. Latin American economies are expected to benefit from economic growth in Asia and the emerging markets in 2011, although growth will be higher in South America, compared with the rest of the Latin American economies. There are a number of obstacles to the longer-term growth outlook in these economies. Tax systems in most countries in the region remain complicated and inefficient, with the tax revenue in some countries low. Shortcomings in the quality of public expenditure, shallow capital and credit markets and inflexible labour markets are other major issues exerting negative impacts on economic developments in this region.

Although, historically, economic growth in most Asian economies has been export-driven, in recent years the economic recovery in many Asian countries has been driven by large fiscal stimuli, backed by soft monetary policies. The stimulus in China was the most important in absolute size and its portion to GDP, but many other Asian governments implemented aggressive fiscal measures to support economic recovery. India, South Korea and Taiwan are clear examples. Nevertheless, it is expected that, in 2011, stimulus packages in most countries will be withdrawn. This is mainly because of inflationary pressures that haven accelerated in recent months. In some emerging economies, including India, China and Brazil, inflation has already surged to higher-than-expected levels, threatening medium-term economic growth.

The rapid expansion of economic activity, together with the loose monetary policies of the post-2008 economic crisis, on the one hand, and rising commodity prices on the other, is fuelling inflation in major developing countries, including the BRICs. Inflationary pressures have led to industrial action for wage increases in some countries that, in turn, could push production costs higher, causing further inflationary expectations. In addition to these internal factors, extraordinary levels of liquidity in the global economy have contributed to a rise in asset prices in developing countries, most notably in South-East Asia, Latin America and, to some extent, the Middle East. Latin American economies and the emerging markets of South-East Asia have registered a resurgence of capital inflows in recent months, mainly due to the expansion of quantitative easing in the US since mid-2010. Both portfolio and direct long-term foreign investment have been rising. This has contributed to a currency appreciation in some countries, such as Brazil. The Brazilian authorities have been particularly vocal about the impact of a surge in capital inflows on the domestic economy. Wide interest rate differentials, combined with strong growth prospects, have made Brazil attractive to speculative investment inflows.

In 2011, most emerging economies, including China, are expected to see their rate of growth become more moderate, compared with last year. In South Asia, the Indian economy is struggling with inflation and there have been signs that fighting inflation is taking its toll on Indian economic growth. The same applies to Brazil, where a strong *real* (Brazil national currency), amid a widening foreign trade deficit and fiscal excess, are leaving the raising of interest rates as the only effective tool to curb inflation — although tightening monetary policy is bound to dampen growth in an economy that enjoys low unemployment and faces wage inflation. Price inflation is a main source of concern in Russia, too. The Russian economy, which is still recovering from its worst recession in recent years in 2009, has had to deal with its public sector deficit, particularly when it comes to the non-oil budget deficit.

Table 3.2 summarizes our estimates of economic rates of growth in four major emerging economies, namely the BRICs, for 2010 and 2011. As inflationary pressures appear to be a common concern in these economies, estimates of consumer price indices on an annual basis are also given. The table also contains consensus estimates of the trade balance and public sector borrowing requirements in these economies for 2011 and 2012. While Brazil enjoys a budget surplus, the three other members of the group have emerged from the recent economic crisis with significant public sector deficits, accumulated mainly through the fiscal expansion and stimulus packages introduced by their governments to rescue the economy from recession.

Table 3.2: Summary of macro-economic performance of the BRICs countries

	GDP growth rate		CPI,* % y-o-y change			Current account balance, US$ bn		PSBR,* % of GDP	
	2010	2011	2010	2011	2012	2011	2012	2011	2012
Brazil	7.2	4.1	5.9	6.0	4.9	-60.2	-72.5	2.7	2.4
China	10.3	9.0	3.3	4.6	3.7	294	300.2	-2	-1.5
India	8.5	8.1	10.2	7.9	7.0	-57.3	-58	-6.5	-6.2
Russia	3.9	4.1	8.8	8.5	7.5	77.4	54.3	-2.6	-3.6

CPI = Consumer price index
PSBR = Public sector borrowing requirement

**Source: Economist Intelligence Unit and Consensuses Forecast, April 2011, figures for India are from the fiscal year 2010-2011 and 2011-2012*

Latin America

The Latin American economies emerged from the recession mostly in a promising condition. However, they now face a challenge from inflation due to growing commodity prices, together with strong capital inflows. The region's economy is estimated to have expanded by 5.4% last year, after contracting by 1.8% in 2009. Robust demand from China and rising commodity prices continue to underpin this strength. Exports to other countries have also spurred the pace of economic recovery in the region. Despite growing exports, strong domestic demand has caused a widening current account deficit, amid rising inflationary pressure. Growth in the region is projected to average 3.8% in 2011.

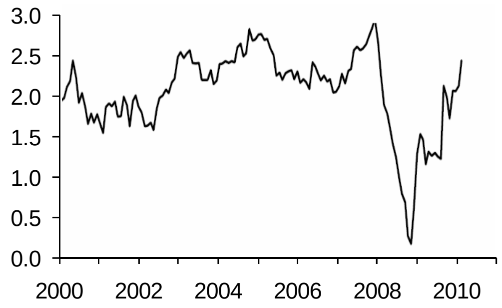
Brazil

Strong final demand growth and the under-performance of industry have been two distinguishing characteristics of Brazil's economy over the past year; the economy seems to have continued in the same vein in the immediate past months. In the fourth quarter of 2010, the growth rate of GDP, on a y-o-y basis, was 3%. This was less than expected, but more than 3Q10 economic growth of 1.6%. Nevertheless, the strong performance of the economy in the first half of 2010 assured full-year economic growth of 7.5% in 2010. Industrial production fell in late-2010, on a relatively broad base from capital and consumer goods, as well as electronics and communications equipment. The main factors contributing to this stalled growth in industrial production are believed to be supply bottlenecks and external competition, underpinned by the real, Brazil's national currency. Growing domestic demand looks to have continued into 2011. This is despite the authorities adopting tighter measures, such as raising banks' reserve requirements and increasing the capital requirement on consumer loans.

Retail sales climbed 8.3% in January, compared with last year. Taking into account vehicles and building materials, the broad measure of retail sales rose by 11.2%, on a y-o-y basis. Robust domestic demand has been supported by improving labour market conditions. Credit growth also picked up in February, on a strong domestic outlook. However, easy credit availability, particularly for consumption, is seen as a key driver of inflation. Inflation in March rose by 6.3% from a year ago and was up from February. This is close to the upper limit of the central bank's target range. The policy rate is currently 11.8% but it is possible it will be raised again in the coming month to curb accelerating inflation. The authorities have announced a policy of increasing the tax on consumer loans, excluding mortgages, from 1.5% to 3%, to control inflationary pressures. On the fiscal side, after the announcement of a R$50 bn (Brazilian real) budget cut, the government has been trying to reassure the market that the adjustment has been made through greater control over expenditure. The central government's primary balance showed a R$9.1 bn (around US $5.4 bn) surplus in March. With these results, the 12-month primary surplus of the central government reached 2.5% of GDP, from 2.2% in February.

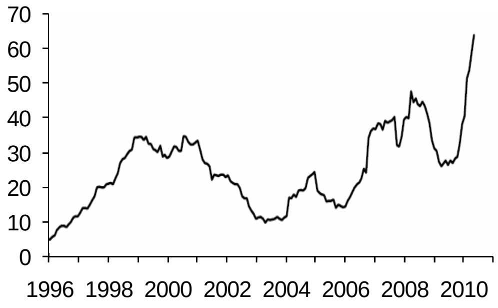
Graph 3.3: Brazil: central government primary

% of the GDP



Graph 3.4: Sharp accerelation in FDI inflows

US$bn, 12-month



Source: Global data watch, JP Morgan, 29 April 2011

On foreign exchange policies, the Finance Ministry has stated that there could be a further tightening of measures, although it has been accepted that an appreciation of the real is to some extent inevitable. The authorities have made it clear that they are ready to continue tighter policies to guarantee a convergence of inflation towards the set target in 2012. For these reasons, analysts believe that there could be more interest rate increases later in the year, lifting the SLIC rate to 12.50, alongside further macro-prudential measures. The March balance of payments figures showed that the current account deficit continued to widen gradually, while capital inflows surged in the first quarter of 2011, led by foreign direct investment and external borrowing. However, it is expected that capital inflows will slow in the coming months, due to the tax imposed on external debt issuance.

The March bank credit report showed credit flattening out at 46.4% of GDP, the same level as in February. There is clearly a moderation of credit expansion, compared with 2010, when credit-to-GDP expanded by more than 2% of GDP. This deceleration in loan-expansion could be a reflection of monetary-tightening, as well as of rising inflation. However, there are also signs of the expansion of real credit to the corporate sector, implying that private banking is trying to regain the market share it lost in 2009 and 2010.

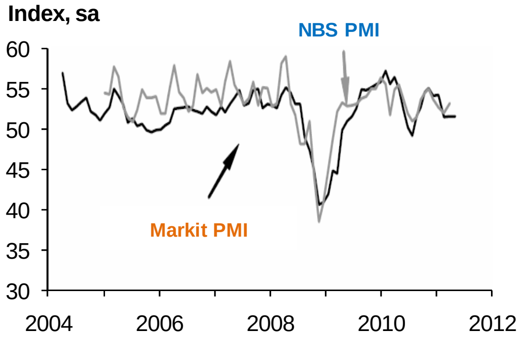
China

After rising by 10.3% in 2010, China's growth is expected to remain robust at around 9% this year and next, with the drivers of growth shifting increasingly from public to private demand. Government policies, allowing credit-expansion, a supportive labour market and efforts to raise household disposable income are expected to support rising private consumption. This year, the main policy goal appears to be to strike a balance between rising incomes and combating inflation. This year's National People's Congress (NPC) meeting, held in March, coincided with the end of the 11th five-year plan and the start of 12th (2011-15). The budgetary details released at the NPC indicated a 12.7% rise in the country's military spending, to $91 bn, which is believed to be an underestimate of the increase in the actual military expenditure of the country.

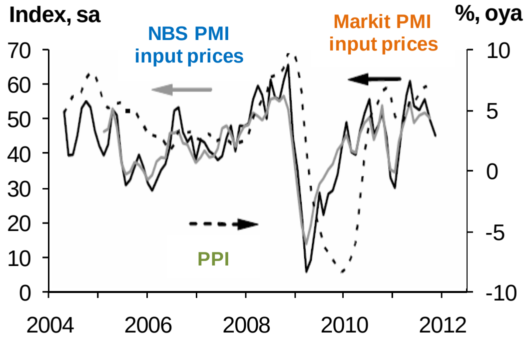
The new five-year plan was the most important aspect of this year's NPC meeting. Achieving inclusive economic growth to create a more "harmonious society" has been a prominent theme of the plan. In this spirit, boosting rural income and improving the social provisions are among the main social messages of the plan, which implies organizing fiscal and monetary policies for the difficult task of rebalancing the economy towards private consumption as a key policy target. According to the plan, the government will seek to steer the economy towards growth of 7% a year, on average, over the next five years. It is worth mentioning that, during the last five years, the economy has grown annually by 11.2% on average, well above the 7.5% target of the previous five-year plan. Also, some of China's provinces have announced economic growth targets higher than the national figure, suggesting a higher rate of economic growth for aggregate GDP in the 12th five-year-plan, compared with the national figure. The Chinese government realizes that the current economic growth path is not sustainable, and, therefore, finding a way for less resource-intensive growth has become crucial for the country's sustainable development. Also, the government has outlined ambitious plans for lower energy-intensive growth. China will aim to cut energy intensity by 16% in the 2011-15 period (EIU, April 2011). A corresponding carbon intensity target of 17% is viewed as being in line with China's existing goal of slashing carbon intensity by 40-45% from 2005 levels by 2020. By 2020, 15% of the energy mix should come from non-fossil sources. Another important theme of the new five-year-plan is urbanization. The plan outlines a target for the rate of urbanization to rise from 47.5% at present to 51.5% in 2015. This implies integrating agricultural lands and boosting productivity in this sector. This will also help dealing with labour shortage in industrial sectors and will underpin the government's goal of targeting the housing sector and property construction for low-income workers.

China's budget for 2011 envisages government expenditure at around $1,500 billion, against its $1,400 bn revenue. This would result in a 2% fiscal deficit in 2011. However, many observers believe that the actual budget deficit should be larger, because of the "off-budget" liabilities of local governments and state-owned enterprises. In general, in China's 2011 budget, an attempt is made to rebalance expenditure from the infrastructure towards social spending. Expenditure in the agricultural sector will be increased by 16% in the budget. Further help for both low-income rural and urban households is to come in the form of increased social security coverage. Spending on social welfare is expected to grow by 14% in 2011.

Graph 3.5: China: manufacturing PMIs



Graph 3.6: China: PPI and PMI, input prices



Source: Global data watch, JP Morgan, 29 April 2011

So far, government policies to prevent the economy from overheating have met with mixed success. Growth in the M2 money supply was down to 15.7% in February year-on-year, below the government's full-year target of 16% growth. The HSBC's Purchasing Managers Index (PMI) slowed to 51.7% in February. April's Markit manufacturing PMI was almost unchanged at 51.8. However, according to the China Federation and Logistics Purchasing, the country's PMI for its services sector rose to an 11-month high of 62.5 in April, from 50.2 in March. It is expected that the export sector will show modest growth in the near term, as the total new orders component in April's Markit PMI recorded 52.7%, compared with the first quarter average of 54.0 and 4Q10 average of 57.7. The adjusted retail sales growth in volume terms slowed to 2.7% (seasonally adjusted rate) in March.

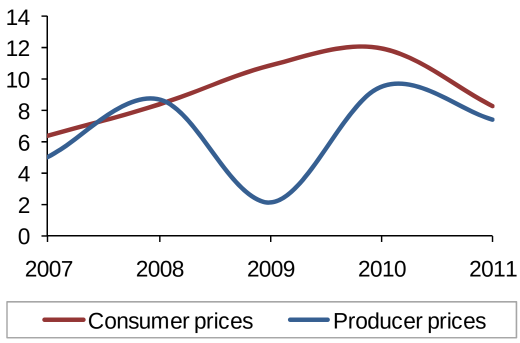
Regarding the investment cycle, public investment projects are expected to grow strongly, while private real estate investment might slow, due to credit-expansion tightening, However, public housing investment should gather more momentum in the coming months, given the policy target to construct ten million affordable housing units this year. Overall, it is expected that the economy will grow near to its trend level in the coming months, with the full-year real GDP growth forecast at 9%, although the industrial production (IP) growth momentum is likely to ease during the second quarter.

Despite the mixed progress in cooling economic growth, inflation remains high. The consumer price index in March and April rose to around 4.6% on an annual basis. The main cause of inflation was seen as being higher food prices, which increased by more than 10% in February. According to JPMorgan (29 April 2011), the Markit PMI input price component eased somewhat, falling 5.1 points to 62.4 in April. Therefore, headline inflation will stay elevated in the coming months. It is likely that the government will increase interest rates and reserve ratio requirements again in the coming months to curb accelerating inflation. However, most observers believe that inflation will begin to ease approaching the fourth quarter of the year, mainly because of the impact of monetary tightening measures taken since last year.

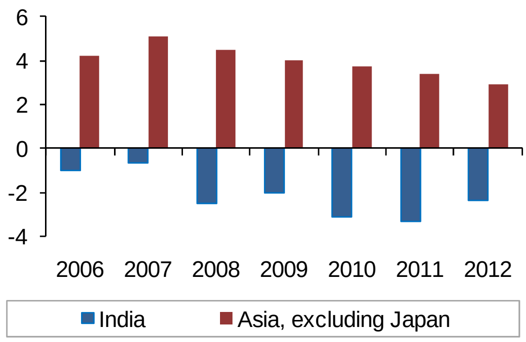
India

Growth in India is expected to be moderate, but it will remain above trend, projected at 8.1% in 2011 and 7.5% in 2012. The infrastructure will remain a key contributor to growth, and corporate investment is expected to accelerate, as capacity constraints start to bind and funding conditions remain supportive. Growth in the industrial sector has decelerated, with the exception of the automotive sector. However, given strong demand by the burgeoning middle class, policy-makers consider real growth will be close to 8%. There is still no sign of the economic growth rate accelerating to 10%, as stated by the government and the Planning Commission for the 12th five-year-plan (2013-17). The HSBC's PMI for the manufacturing sector in March was 57.9, unchanged from February. The rate of growth in new orders was at a 31-month high, justifying the claims by policy-makers that the slowdown in industrial sector expansion would not affect GDP in the short term.

Graph 3.7: Price inflation, % change, y-o-y



Graph 3.8: Current -account balance, % of GDP



Source: Economist Intelligence Unit

According to government estimates, India's food-grain output reached around a record 236 million tonnes in the 2010 fiscal year. This is important for the Indian economy, as an increase in supply would curb inflation and reduce its trade balance. Accelerating inflation has been a problem for the Indian economy since 2009, and, despite slowing the pace of economic expansion, inflation remains elevated and has spread to manufacturing and wages. However, the surge in manufacturing exports of the last few months continued into March.

Primary data suggests that exports grew by around 44% year-on-year in March, which is remarkable. Some observers expect that Indian exports in 2011 will exceed $246 bn, which will be significantly higher than market expectations.

India's combined state and federal fiscal deficit is forecast by the IMF to be lower than estimated. The combined state and federal fiscal deficit is now projected to be 8.3% of GDP for the 2011 fiscal year. The central bank of India (RBI) believes that the state finances have improved. It estimates the state-level deficit at 2.5% of GDP. The government target is to reduce the federal deficit to 4.6% of GDP in the 2011 fiscal year, but this seems ambitious. The deputy chairman of the planning commission (a leading federal government policy-making body) has been quoted as saying that this fiscal target is achievable, if oil prices remain around $100/b. Nevertheless the Consensus Forecast (April 2011) envisages a 6.5% and 6.2% federal budget deficit for the 2011 and 2012 fiscal years respectively.

The Indian government introduced a bill for a nationwide goods and services tax (GST) in parliament on 22 March. Its objective is to create a "common market" for goods and services by replacing various state-level taxes with a single national GST. The bill needs the approval of two-thirds of Parliament and one-half of India's 28 states to become law.

On the monetary policy front, the RBI raised interest rates by a sharper-than-expected 50 basis points to 7.25% and signalled its concern over rising inflationary pressures. The government might consider raising its policy rates further, even at the expense of economic growth, if inflation does not decelerate. The Consensus Forecast (April 2011) envisages consumer price inflation close to 8% for 2011 and 7% for next fiscal year. The wholesale price index stood at 9% year-on-year in March, up from 8.3% in February. This was higher than the RBI target of 8% and far from its comfort zone of 5-5.5%. While food prices fell less than one percentage point in March, they increased by 1.4 percentage points in the manufacturing sector.

It is worth mentioning that the political scene is dominated by recent elections in five states and accelerating inflation could negatively affect election results for the ruling party that has a fragile majority in Parliament. A tightening of monetary expansion was expected, as, since early 2011, core inflation was poised to accelerate. With the expectation of inflation rising, with energy prices increasing and with the PMI output price index indicating higher manufacturing prices, fighting inflation has become a major policy target in India. However, the yield curve flattened out in March, suggesting that the market believed inflation would not accelerate in the future. Dampening price increases is important for investment too, as, when there is inflationary pressure, investors are worried about the prospect of a hard landing and adopt a “wait and see” policy that could reduce economic activity.

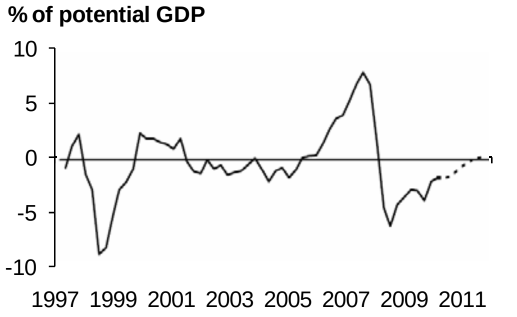
Russia

The Russian economy grew by 4% in 2010, faster than expected. The greatest contribution to GDP growth came from the recovery in equities, as these had declined sharply in 2009. Increases in external demand also contributed to GDP growth, as exports rose by 11% in 2010. Domestic consumption and investment also recovered in 2010. Some observers believe that the Russian economy is approaching its potential, and there are reasons for believing that, in the second half of 2011, this gap will narrow further. Among important observations are the shrinking unemployment in recent months and the growing capital utilization in the industrial sector that is approaching the level seen at the recent past peak, a level considered to be an over-heated situation. The seasonally adjusted unemployment rate fell to 6.5% in March, while the HSBC Russian Manufacturing PMI reached 55.6. Survey data compiled by Markit for the HSBC suggests that the Russian manufacturing sector has continued to build on its positive start to 2011. Output has continued to grow sharply, with new orders increasing at the strongest rate for three years.

These developments, amid the changes in the composition of inflation towards demand-pull inflation, are in line with our past months’ reviews of the economy, that the curbing of inflation would need tightening monetary policies to dampen aggregate demand. Operating close to its potential level, together with low interest rates and monetary expansion, exposes the economy to inflationary pressures, with strong implications for wage-setting, particularly in the private sector. The private sector wage growth rate exceeded 15% at the end of last year. Private wage growth rates displayed a downward trend earlier this year, but, with the economy expanding close to its full employment level, wages could start to rise again.

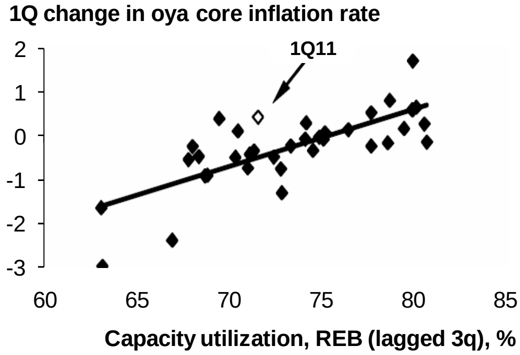
Despite this general pattern of economic growth, some sectors remain weak. It is worth noting that much of the rise in manufacturing output comes from the recovery of the Russian car industry, which came close to a collapse in 2009. Domestic car output increased 115% on an annual basis, and machinery and equipment expanded by as much as 24% in February, compared with January. Retail sales, however, grew by just 1.9% on an annual basis and the construction sector contracted by 0.3% in the first quarter of 2011. Contractions in investment also seemed to contradict the significant expansion of the manufacturing sector. According to the RosSat estimate, investment spending fell by 0.4% on a yearly basis in February and by 4.7% in January. Further doubts about the investment data stem from discrepancies in reported data for 2010. The national account suggests that investment grew by 3.5% last year. Capital outflow is another sign of weakening sentiment in investment spending. According to the Central Bank of Russia (RCB), the net private capital outflow reached around $11 bn in the first two months of 2011, bringing the total net outflow to $44 bn since September 2010. This might have originated from the political uncertainties related to the forthcoming elections.

Graph 3.9: Estimated output gap of Russia economy



Source: Global data watch, JP Morgan, 29 April 2011

Graph 3.10: Changes in core inflation vs. capacity utilization



On economic policy, the Russian government has started preparing the budget for 2012. The outline of the budget will be ready in June, following its first draft in August, and the final version will be submitted to Parliament in October. It is most likely that social spending will be raised in the budget, as the national Parliamentary election is due in December and the government is keen to increase its public support, considering the fact that, in regional elections to Parliament held in March (in 12 regions), the ruling "United Russia's" share of the vote shrank — in many cases by 15-20% and, in some cases, by more than 50%. The plan for 2012, reflected in the three-year budget planning process, calls for a deficit of 2.8% of GDP, calculated on the basis of an oil price of $78/b, that may prove quite conservative and leave room for more spending as the end of the year approaches. According to the country report by the Economist Intelligence Unit (EIU, April 2011) the federal budget deficit in 2010 was 2.6%. If oil and gas revenue are excluded, then the deficit was 12.7% of GDP. Considering the published budget for 2011, rising oil and gas revenue, on the back of higher-than-expected oil and gas prices, could turn into a budget surplus of 0.7% of GDP for this year, while, in the annual plan, a budget deficit equal to 3.6% of GDP was envisaged. The non-oil budget for 2011 was estimated to reach 11.7% of GDP.

In the monetary sector of the economy, a new strategy for the banking sector has been adopted by the government. Its objective is to bring Russian banking standards to the international level, complying with the Basel II and Basel III requirements on capital adequacy and liquidity. The strategy proposes a number of measures to improve transparency in the system, although the ban on foreign banks operating branches in Russia remains in force. According to the EIU, the strategy aims for Russian banking assets to grow to 90% of GDP by the end of 2015. The minimum capital requirement is to be raised to Rb300 m for new banks and existing banks would need to comply by January 2015.

OPEC Member Countries

Considering the continuation of the global economic recovery and that expectations that crude oil prices will remain at reasonable levels for as long as the global economy expands, most OPEC Member Countries are expect to see steady economic growth in 2011. The growth rates for most of these countries are slightly higher than the readings seen in late-2010. In fact, the rates of economic growth for eight out of the 12 Member Countries are estimated to be higher in 2011 than last year. As a whole, the economies of Member Countries are expected to grow by around 4% in 2011, compared with 3.5% in 2010, and this indicates an overall increase in their economic activity.

Oil prices, US dollar and inflation

US dollar weakened against the major currencies, with the exception of the yen. It traded at an average rate of $1.4439/€ in April, compared with $1.3998/€ in March

The US dollar continued weakening against the major currencies in April, with the exception of the yen. It fell by 3.2% against the euro, after it had recorded already a decline of 2.6% in March and 2.2% in February. Versus the Swiss franc, it lost 2.2%, after weakening in March by 3.4%, and it also lost 1.1% against the pound sterling. However, it increased by 1.9% against the yen. The euro continued to trade in its trading range of 'above $1.40/€', but it was very volatile over the past four weeks. It almost reached $1.50/€ at the beginning of May, but then lost significantly after the European Central Bank's Governing Council meeting on 5 May, when an expected rate hike did not materialize, and it fell back below $1.45/€. The average level for April was $1.4439/€, compared with the February level of $1.3998/€. While the euro continues to be carried by expectations of further interest rate rises in the Euro-zone, the debt worries about the peripheral countries in the zone might act as a counterforce and, in the case of a serious re-emergence of those challenges, could again put the euro under considerable pressure. The most recent aid-request from Portugal to the European authorities, in combination with the sovereign debt stress of Greece, has highlighted this challenge.

OPEC Reference Basket price rose by 7.5% in April

In nominal terms, the OPEC Reference Basket increased by 7.5%, or $8.25/b, from $109.84/b in March to $118.09/b in April. In real terms, after accounting for inflation and currency fluctuations, the Basket price increased by 6.5%, or $4.28/b, to $70.56/b from $66.28/b (base June 2001=100). Over the same period, the US dollar fell by 1.4% against the import-weighted, modified Geneva I + US dollar basket and inflation fell by 0.4%.*

* *The 'modified Geneva I+US$ basket' includes the euro, the Japanese yen, the US dollar, the pound sterling and the Swiss franc, weighted according to the merchandise imports of OPEC Member Countries from the countries in the basket.*

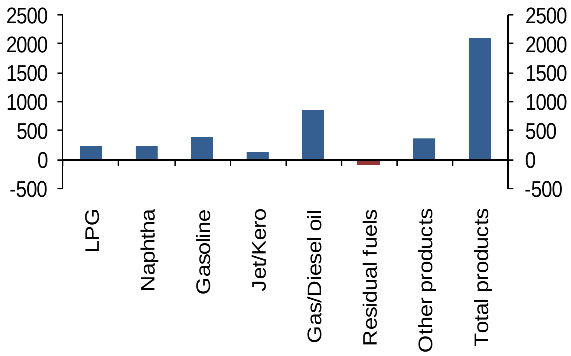
World Oil Demand

World oil demand forecast to grow by 1.4 mb/d in 2011 following growth of 2.1 mb/d last year

World oil demand

A volatile oil market is making future estimates hard to manage. Many variables have been affecting oil demand worldwide. The Japanese earthquake, along with economic uncertainty in the US is keeping oil demand estimates continually in an adjustment mode and is imposing a downside risk for the year's forecasts. Japan's natural disaster caused the country's oil demand to plunge by 0.2 mb/d in March, and it is forecast to worsen in April and May. Furthermore, this negative effect on Japanese demand is expected to last at least through the next two quarters. Given the unstable status of the country's damaged nuclear power plants, Japan has not set a firm strategy on how to rebuild. Hence, this adds more ambiguity to the oil market. Nevertheless, summer electricity demand will force the country to utilize power plants burning crude and fuel oil. To a certain degree, this will even out the loss in oil usage in other sectors. China's economy, on the other hand, is roaring ahead of all expectations. This will, of course, not only have implications on the country's future oil demand but will also add another 0.2 mb/d to its first-quarter oil demand growth.

Graph 4.1: Forecasted y-o-y growth in 2010 world oil demand



That said, it is too early to alter the existing forecast for world oil demand as risks are nearly balanced with regard to upward and downward movements. International oil prices are imposing a stronger reverse elasticity on oil demand. However, set against this, Chinese, Middle Eastern and Indian oil demand are having an opposite effect.

Graph 4.2: Forecasted y-o-y growth in 2011 world oil demand

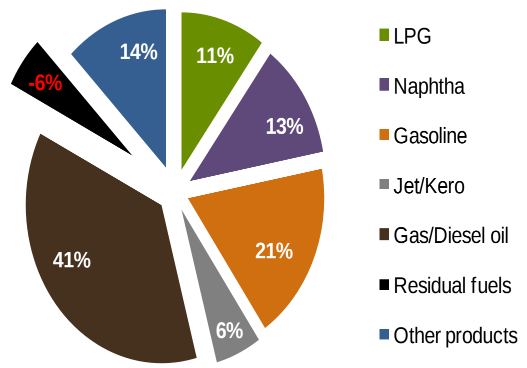
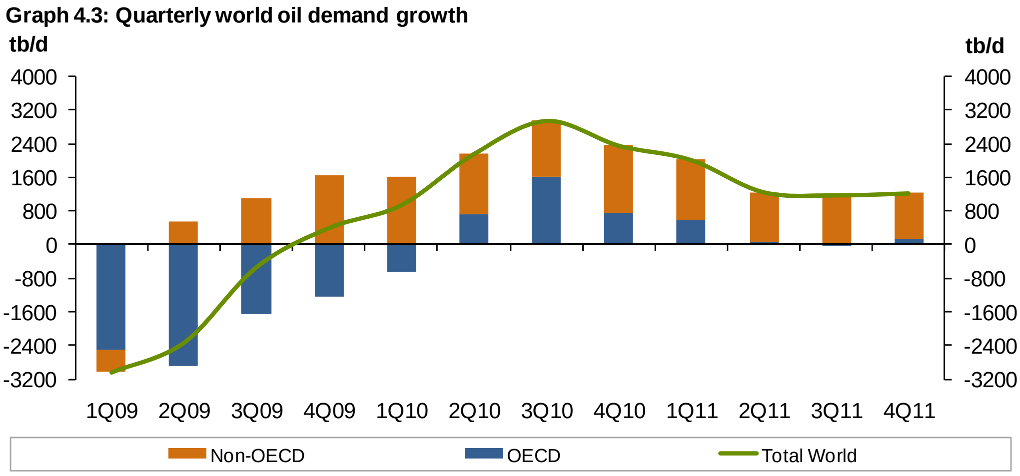


Table 4.1: World oil demand forecast for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 2010/09 Growth	%
North America	23.30	23.45	23.78	24.23	24.00	23.87	0.57	2.44
Western Europe	14.53	14.18	14.12	14.79	14.70	14.45	-0.08	-0.58
OECD Pacific	7.66	8.19	7.32	7.60	8.04	7.79	0.13	1.70
Total OECD	**45.49**	**45.82**	**45.21**	**46.62**	**46.74**	**46.10**	**0.61**	**1.35**
Other Asia	9.85	9.97	10.15	9.95	10.17	10.06	0.21	2.14
Latin America	5.95	5.90	6.12	6.33	6.27	6.16	0.21	3.44
Middle East	7.07	7.15	7.12	7.45	7.23	7.24	0.17	2.34
Africa	3.25	3.38	3.36	3.24	3.39	3.34	0.10	2.97
Total DCs	**26.12**	**26.40**	**26.76**	**26.97**	**27.06**	**26.80**	**0.68**	**2.59**
FSU	3.97	4.00	3.84	4.28	4.36	4.12	0.15	3.73
Other Europe	0.73	0.69	0.64	0.68	0.76	0.69	-0.03	-4.45
China	8.25	8.37	9.09	9.23	9.10	8.95	0.70	8.45
Total "Other regions"	**12.95**	**13.06**	**13.58**	**14.19**	**14.22**	**13.77**	**0.81**	**6.28**
Total world	**84.57**	**85.28**	**85.55**	**87.79**	**88.02**	**86.67**	**2.10**	**2.49**
Previous estimate	84.54	85.15	85.43	87.67	87.90	86.55	2.00	2.37
Revision	0.02	0.13	0.12	0.12	0.12	0.12	0.10	0.12

Totals may not add due to independent rounding



World oil demand is forecast to grow by 2.1 mb/d in 2010 and 1.4 mb/d in 2011.

The extreme winter appears to have affected oil demand directly and indirectly by more than anticipated. Hence, the figures for last year's fourth-quarter and this year's first-quarter oil demand have been revised up by 0.1 mb/d each. Part of this growth was related to fuel-switching in some parts of the world, as natural gas prices increased, forcing some industries to use fuel oil instead.

Table 4.2: First and second quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	1Q09	1Q10	Volume	%	2Q09	2Q10	Volume	%
North America	23.43	23.45	0.02	0.09	22.94	23.78	0.83	3.64
Western Europe	14.93	14.18	-0.75	-5.05	14.28	14.12	-0.16	-1.09
OECD Pacific	8.12	8.19	0.07	0.84	7.27	7.32	0.04	0.56
Total OECD	**46.49**	**45.82**	**-0.66**	**-1.43**	**44.49**	**45.21**	**0.72**	**1.62**
Other Asia	9.73	9.97	0.24	2.47	9.92	10.15	0.23	2.33
Latin America	5.70	5.90	0.20	3.53	5.90	6.12	0.22	3.68
Middle East	6.94	7.15	0.21	3.00	7.05	7.12	0.07	0.98
Africa	3.27	3.38	0.11	3.33	3.25	3.36	0.12	3.64
Total DCs	**25.64**	**26.40**	**0.76**	**2.96**	**26.12**	**26.76**	**0.64**	**2.43**
FSU	3.87	4.00	0.13	3.45	3.70	3.84	0.14	3.78
Other Europe	0.74	0.69	-0.05	-6.77	0.69	0.64	-0.05	-7.37
China	7.61	8.37	0.76	10.03	8.38	9.09	0.71	8.46
Total "Other regions"	**12.22**	**13.06**	**0.85**	**6.93**	**12.78**	**13.58**	**0.80**	**6.24**
Total world	**84.34**	**85.28**	**0.94**	**1.12**	**83.40**	**85.55**	**2.15**	**2.58**

Totals may not add due to independent rounding

Table 4.3: Third and fourth quarter world oil demand comparison for 2010, mb/d

			Change 2010/09				Change 2010/09	
	3Q09	3Q10	Volume	%	4Q09	4Q10	Volume	%
North America	23.28	24.23	0.96	4.11	23.55	24.00	0.45	1.91
Western Europe	14.47	14.79	0.32	2.21	14.46	14.70	0.24	1.63
OECD Pacific	7.25	7.60	0.35	4.86	7.99	8.04	0.06	0.71
Total OECD	**45.00**	**46.62**	**1.63**	**3.62**	**46.00**	**46.74**	**0.74**	**1.62**
Other Asia	9.79	9.95	0.16	1.65	9.96	10.17	0.21	2.10
Latin America	6.11	6.33	0.23	3.69	6.09	6.27	0.18	2.90
Middle East	7.28	7.45	0.17	2.27	7.01	7.23	0.22	3.13
Africa	3.16	3.24	0.08	2.43	3.31	3.39	0.08	2.50
Total DCs	**26.34**	**26.97**	**0.63**	**2.39**	**26.37**	**27.06**	**0.69**	**2.61**
FSU	4.14	4.28	0.14	3.38	4.18	4.36	0.18	4.27
Other Europe	0.71	0.68	-0.03	-4.34	0.76	0.76	0.00	0.28
China	8.66	9.23	0.58	6.64	8.36	9.10	0.74	8.90
Total "Other regions"	**13.51**	**14.19**	**0.68**	**5.06**	**13.29**	**14.22**	**0.92**	**6.96**
Total world	**84.85**	**87.79**	**2.94**	**3.47**	**85.66**	**88.02**	**2.36**	**2.75**

Totals may not add due to independent rounding

Alternative fuel

Germany raised the biodiesel level again to 10% (E10), despite protests from the public and auto-makers. The biofuel mandate in the OECD has been partly blamed for food price increases, as large amounts of raw food commodities eventually end up in vehicles' fuel-tanks. In the US, the government is pushing an incentive to have more transport fuel with 15% biofuel (E15). In addition to the negative impact on food prices, OECD biofuel subsidies have long been accused of causing environmental problems, such as deforestation and pollution. Due to the heavy subsidies, almost 40% of the corn crop is used for biofuel rather than human consumption – and this has led to massive increases in food prices.

OECD – North America

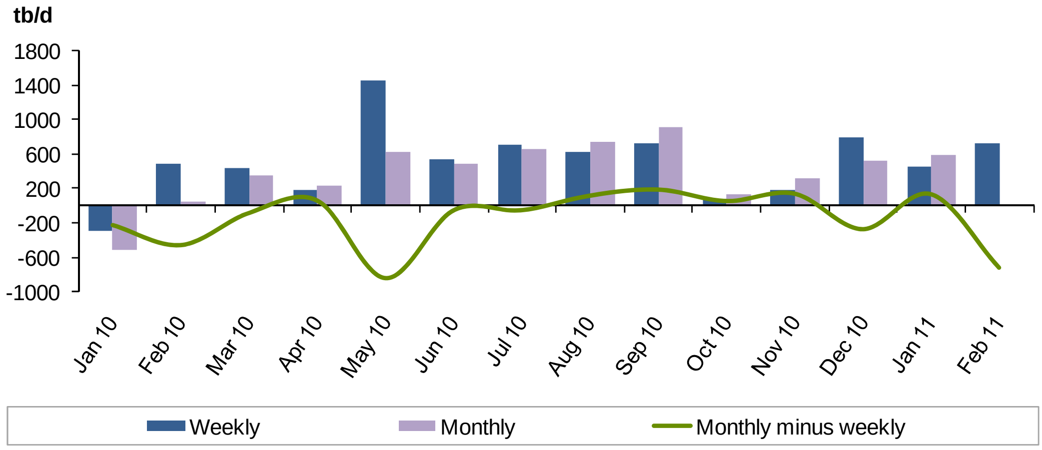
After growth of 6 mb/d last year, oil demand in North America is expected to grow by only 0.2 mb/d in 2011

The latest monthly US oil consumption data shows marginal yearly growth of 0.1% for February, the lowest increase since January 2010. The only product showing high consumption growth is residual fuel oil, mainly because of the cold weather, with all other product categories being in decline or stagnating. The transportation sector has already started showing some indications that high oil prices have reduced driving mileage and, hence, transportation fuel consumption. Interestingly, oil prices did not affect consumer purchasing behaviour towards vehicles; US sales of light vehicles continued their high growth in April – increasing by 17% y-o-y – despite lower incentives and rising fuel prices.

Moreover, distillate consumption was flat in February y-o-y and the lowest since February 2010, as a result of shrinking industrial activity. Nevertheless, preliminary weekly data for March and April show a somewhat better picture of consumption of transportation and industrial fuels. However, these figures are still preliminary and might be adjusted by monthly data later next month.

The first complete set of US oil consumption data for January-April showed a yearly increase of 2.4%, which is mainly driven by industrial fuels and jet fuel/kerosene, while transportation fuels are flat.

Graph 4.4: US 50 y-o-y oil consumption growth by EIA/DoE report type



The latest released monthly oil consumption data from the US for February 2011 significantly changed the picture of oil consumption during that month, which has been assumed on the basis of preliminary weekly data. The high y-o-y growth (0.7 mb/d) implied by the weekly data has been practically eliminated upon the release of monthly information marking the second biggest correction since the beginning of 2010. The above graph summarizes such discrepancies and emphasizes the importance of being cautious when interpreting preliminary weekly data; as such information can at times be quite misleading. Given the magnitude of US oil demand, inaccurate data will give the wrong balance in the oil market, hence negatively affect prices. Such exaggeration in the oil demand assessment puts extensive pressure on producers leading to an unstable market.

Driven by a low baseline and persistently cold weather, Canadian oil demand continued its high growth rates in February, with sharp increases in fuel oil and gasoline. Canadian oil consumption grew again and is expected to continue a similar trend in March, due mainly to the low baseline and cold weather.

Industrial activity in February pushed Mexican oil consumption up by 2.4%, compared with last year. However, the trend reversed and dipped into the negative in March by 31,000 b/d, a fact which was basically due to the continually struggling Mexican economy. All petroleum product consumption is on the decline as a result.

For 2010, North American oil demand grew by 0.6 mb/d. In 2011, consumption is expected to rise by only 0.2 mb/d, following a minor downward adjustment in US demand.

The US auto market has already started to feel the impact of disruptions in Japan in March. There are fears of supply shortages of some types of Japanese cars, mostly small and efficient ones. Auto sales in Canada rose nearly 7% in April and consumer choices for fuel-efficient cars increased. According to the Mexican Automobile Industry Association, Mexico's auto industry continued to grow strongly in March, with sales and exports of vehicles rising by 15% and 17% y-o-y respectively.

Table 4.4: World oil demand forecast for 2011, mb/d

							Change 2011/10	
	2010	1Q11	2Q11	3Q11	4Q11	2011	Growth	%
North America	23.87	23.83	23.94	24.39	24.25	24.11	0.24	0.99
Western Europe	14.45	14.33	14.10	14.72	14.62	14.44	-0.01	-0.04
OECD Pacific	7.79	8.23	7.22	7.51	8.00	7.74	-0.05	-0.59
Total OECD	**46.10**	**46.40**	**45.27**	**46.62**	**46.87**	**46.29**	**0.19**	**0.40**
Other Asia	10.06	10.20	10.38	10.18	10.38	10.29	0.23	2.25
Latin America	6.16	6.11	6.30	6.52	6.42	6.34	0.18	2.90
Middle East	7.24	7.27	7.30	7.64	7.43	7.41	0.17	2.39
Africa	3.34	3.42	3.39	3.27	3.41	3.37	0.03	0.86
Total DCs	**26.80**	**27.01**	**27.36**	**27.60**	**27.65**	**27.41**	**0.61**	**2.27**
FSU	4.12	4.09	3.91	4.36	4.44	4.20	0.08	1.86
Other Europe	0.69	0.67	0.62	0.67	0.73	0.67	-0.02	-3.03
China	8.95	9.13	9.64	9.72	9.55	9.51	0.56	6.29
Total "Other regions"	**13.77**	**13.89**	**14.17**	**14.75**	**14.72**	**14.39**	**0.62**	**4.49**
Total world	**86.67**	**87.29**	**86.80**	**88.96**	**89.24**	**88.08**	**1.41**	**1.63**
Previous estimate	86.55	87.07	86.67	88.83	89.17	87.94	1.39	1.61
Revision	0.12	0.22	0.13	0.14	0.07	0.14	0.02	0.02

Totals may not add due to independent rounding

OECD – Europe

OECD Europe oil consumption expected flat in 2011

Europe is embarking on a plan to reduce fuel consumption through higher tax laws. Europe has followed a policy of extremely high taxation for many years. If approved, this move could worsen the EU's inflation problems and would increase the burden on its citizens as well. Tax could equal three-quarters of fuel prices.

European oil consumption grew by 0.1 mb/d in March, with Germany and France as the region's largest contributors. These increases were due mainly to exceptionally cold weather, and this is shown by significantly higher consumption of all heating oil product categories. The short-term perspective for European oil consumption in 2011 clearly displays a decreasing trend. Continuing problems in several European economies – particularly Greece, Ireland and Portugal – have put strong downward pressure on oil demand in the region. Oil demand in Europe's Big Four (Germany, UK, France and Italy) increased by 0.05 mb/d y-o-y in March; however, this was less than the 0.07 mb/d seen in February. Stronger distillate consumption in March took place in all four countries, with the exception of Italy. Distillates have been the main driver of growth, while, over the same period, transportation fuels remain on the decline. German and French oil consumption in March was up by 2% and 1% respectively, while oil consumption in Italy was down 0.2%.

OECD Europe oil consumption is expected to be flat in 2011. However, there is a substantial downward risk in the second half of the year. The instability in the European economy and higher oil prices are likely to be major factors in the oil consumption trend for the remainder of the year.

According to the latest information from the European Automobile Manufacturers' Association, European demand for new passenger cars in March decreased by 5.0%, compared with March 2010, with a diverging picture for the main markets. France and Germany posted solid growth of 6% and 11%, while the others declined substantially. The UK experienced a contraction of minus 8%, Italy by minus 28% and Spain by minus 29%. During the first three months of the year, these three countries remained in the negative, with UK auto sales dipping by minus 9%, Italian by minus 23% and Spanish by minus 27%. The European region closed the first quarter with a loss of 2.3% in total y-o-y. The steepest fall was noted in Greece, at minus 57%, and the largest growth in Latvia, at plus 132%. The Latvian market remained, however, the smallest (1,902 units), while Germany registered the most vehicles (763,403) over the first quarter.

Table 4.5: Europe Big 4* oil demand, tb/d

	Mar 11	Mar 10	Change from Mar 10	Change from Mar 10, %
LPG	440	501	-61	-12.2
Gasoline	1,176	1,272	-96	-7.6
Jet/Kerosene	779	727	52	7.1
Gas/Diesel oil	3,379	3,363	17	0.5
Fuel oil	458	458	0	0.0
Other products	1,279	1,137	142	12.5
Total	**7,511**	**7,458**	**53**	**0.7**

** Germany, France, Italy and the UK*

OECD – Pacific

OECD Pacific oil consumption expected to fall by 0.05 mb/d; however, projections are heavily dependent upon the speed of the recovery in Japan

Japan's disaster has ruptured the power supply system, with the country trying to replenish the power deficit through the burning of other types of energy, such as natural gas, coal, crude and fuel oil. Crude-burning and fuel oil have long been used as a backup in such emergencies. The 2007 nuclear power plant shutdown saw crude-burning and fuel oil used as substitute fuels. It is anticipated that the country's oil demand will inch up, due to the extra usage of crude and fuel oil during the summer season. Although the picture for the Japanese situation is still unclear, initial estimates indicate a y-o-y contraction of 2.2% in the country's oil demand.

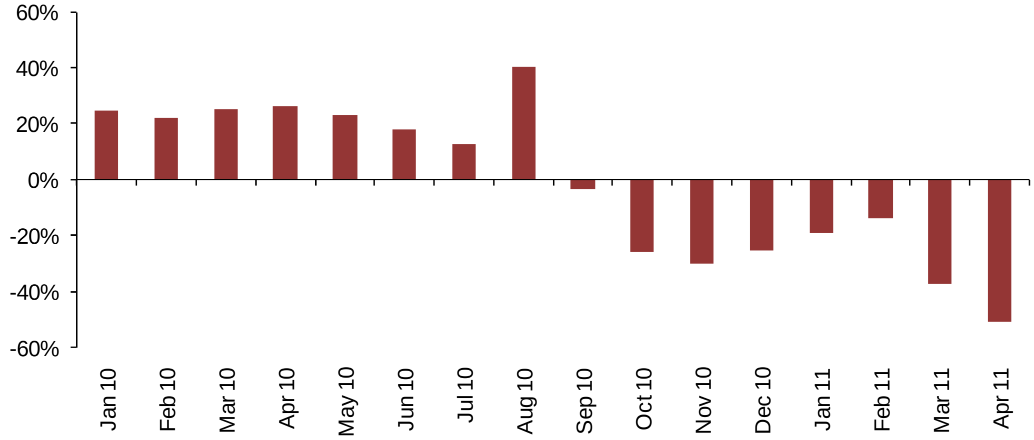
The impact of the catastrophic earthquake has already started to show in the latest monthly data for March, which points at deeply decreasing y-o-y oil consumption. All product categories, with the exception of direct crude-burning, have been negatively affected, but particularly fuels used in the aviation, transportation and industrial sectors. As mentioned, the further development of Japanese oil consumption in 2011 is heavily dependent upon the speed of resolving the ongoing nuclear crisis at the Fukushima plant, which represents a major threat to the Japanese economy and the country's role as a key production center.

The latest April data shows a huge second consecutive drop in Japanese auto sales, at 51%, as a result of the country's natural disaster. This was the biggest plunge since the start of data-gathering.

In South Korea, February marked increases in the consumption of all products, with the exception of liquefied petroleum gas and fuel oil, as both have been affected by fuel-switching in power plants. Transportation fuel increased sharply, as the government reduced taxes on such products. The country's total oil demand inched up by 2.1% or 49,000 b/d y-o-y in February to average 2.4 mb/d.

OECD Pacific oil demand showed minor growth of 0.1 mb/d in 2010. During 2011, however, the region's oil consumption is expected to fall by 0.05 mb/d, although projections are heavily dependent upon the speed of recovery in Japan.

Graph 4.5: Japanese new passenger car registrations, y-o-y % changes



Japan's auto sales dropped 51% in April y-o-y. This was the biggest plunge since reporting began in 1968. As the earthquake and tsunami squeezed production, only 108,000 vehicles were sold last month. Northeastern Japan hosted around 500 auto-related plants. Although operations resumed last month at the three leading automakers, production was well below original expectations and the future remains unclear. Nevertheless, Toyota and Honda expect all production lines to be back to normal by the end of 2011.

Table 4.6: First and second quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	1Q10	1Q11	Volume	%	2Q10	2Q11	Volume	%
North America	23.45	23.83	0.38	1.62	23.78	23.94	0.17	0.70
Western Europe	14.18	14.33	0.15	1.08	14.12	14.10	-0.02	-0.17
OECD Pacific	8.19	8.23	0.04	0.52	7.32	7.22	-0.09	-1.25
Total OECD	**45.82**	**46.40**	**0.58**	**1.26**	**45.21**	**45.27**	**0.05**	**0.12**
Other Asia	9.97	10.20	0.24	2.40	10.15	10.38	0.23	2.23
Latin America	5.90	6.11	0.20	3.47	6.12	6.30	0.18	2.86
Middle East	7.15	7.27	0.13	1.75	7.12	7.30	0.17	2.44
Africa	3.38	3.42	0.04	1.19	3.36	3.39	0.02	0.71
Total DCs	**26.40**	**27.01**	**0.61**	**2.31**	**26.76**	**27.36**	**0.60**	**2.24**
FSU	4.00	4.09	0.09	2.12	3.84	3.91	0.07	1.82
Other Europe	0.69	0.67	-0.02	-2.18	0.64	0.62	-0.03	-3.90
China	8.37	9.13	0.76	9.07	9.09	9.64	0.55	6.06
Total "Other regions"	**13.06**	**13.89**	**0.83**	**6.35**	**13.58**	**14.17**	**0.60**	**4.39**
Total world	**85.28**	**87.29**	**2.01**	**2.36**	**85.55**	**86.80**	**1.25**	**1.46**

Totals may not add due to independent rounding

Table 4.7: Third and fourth quarter world oil demand comparison for 2011, mb/d

			Change 2011/10				Change 2011/10	
	3Q10	3Q11	Volume	%	4Q10	4Q11	Volume	%
North America	24.23	24.39	0.15	0.64	24.00	24.25	0.25	1.04
Western Europe	14.79	14.72	-0.07	-0.47	14.70	14.62	-0.08	-0.53
OECD Pacific	7.60	7.51	-0.09	-1.20	8.04	8.00	-0.04	-0.53
Total OECD	**46.62**	**46.62**	**-0.01**	**-0.01**	**46.74**	**46.87**	**0.13**	**0.28**
Other Asia	9.95	10.18	0.23	2.28	10.17	10.38	0.21	2.10
Latin America	6.33	6.52	0.18	2.89	6.27	6.42	0.15	2.43
Middle East	7.45	7.64	0.19	2.58	7.23	7.43	0.20	2.77
Africa	3.24	3.27	0.03	0.80	3.39	3.41	0.02	0.74
Total DCs	**26.97**	**27.60**	**0.63**	**2.33**	**27.06**	**27.65**	**0.59**	**2.18**
FSU	4.28	4.36	0.08	1.75	4.36	4.44	0.08	1.75
Other Europe	0.68	0.67	-0.02	-2.20	0.76	0.73	-0.03	-3.82
China	9.23	9.72	0.49	5.34	9.10	9.55	0.45	4.97
Total "Other regions"	**14.19**	**14.75**	**0.55**	**3.90**	**14.22**	**14.72**	**0.50**	**3.51**
Total world	**87.79**	**88.96**	**1.18**	**1.34**	**88.02**	**89.24**	**1.22**	**1.39**

Totals may not add due to independent rounding

DC oil demand growth forecast at 0.6 mb/d this year

Developing countries

Thailand has reduced taxes on energy in order to reduce retail domestic prices. This move has kept the price per litre for diesel at around $1. Thailand consumed 911,000 b/d of oil in February, of which 37% is diesel. Diesel consumption in Thailand is attributed mostly to transportation; however, industrial and agricultural sectors contribute to this consumption as well. Total oil consumption increased in February by 0.7% y-o-y. The growth is related to LPG and jet fuel consumption. As for the entire year, Thailand oil demand is expected to grow moderately by 2.1%, averaging 0.95 mb/d.

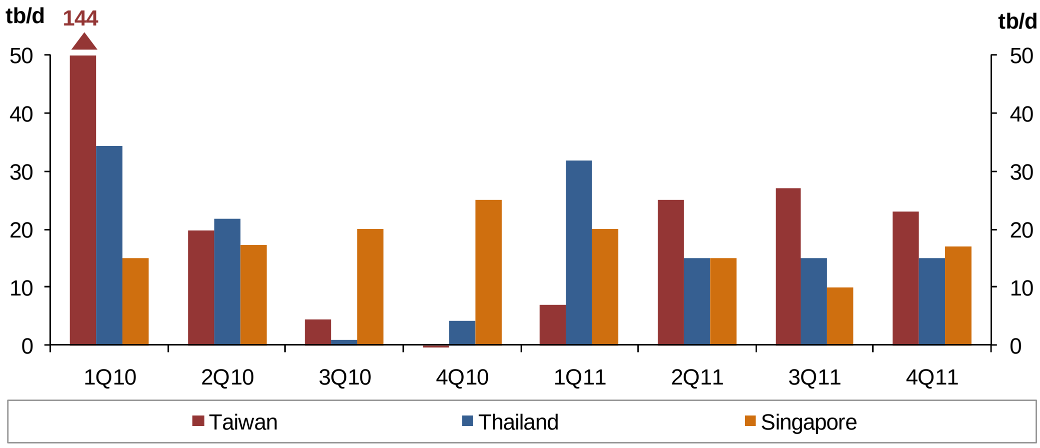
Table 4.8: Consumption of petroleum products in Thailand, tb/d

	Feb 11	Feb 10	Change, tb/d	Change, %
LPG	210	181	29	16.0
Gasoline	134	133	1	0.7
Jet Fuel/Kerosene	98	90	8	8.9
Diesel	335	347	-12	-3.5
Fuel oil	47	66	-19	-28.6
Other products	86	87	-1	-0.8
Total	**911**	**905**	**6**	**0.7**

Source: JODI/EPPO

Other Asia oil demand to grow by 0.2 mb/d in 2011, powered by India

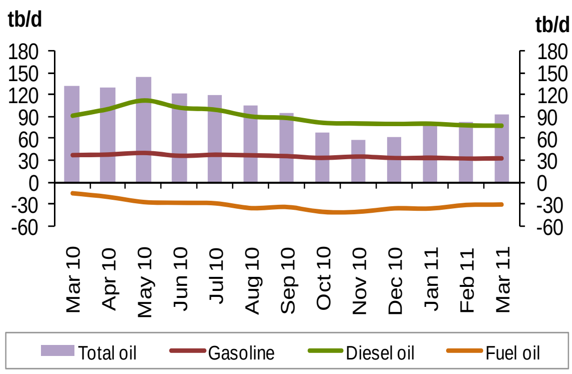
Graph 4.6: Oil consumption in selected Asian countries, y-o-y growth



With 8.1% GDP growth, Indian oil demand for 2011 is forecast to grow by 3.5% this year adding another 115 tb/d to the country's total oil demand

Indian oil demand has kept up its momentum since the start of the year. March data indicated 4.9% growth in the country's total oil consumption. This led to total growth of 3.9% in the first quarter y-o-y. The first quarter's diesel usage totalled 1.3 mb/d, an increase of 76,000 b/d y-o-y. LPG and gasoline consumption were up by 40,000 and 28,000 b/d for the same period. Given expected GDP growth, Indian oil demand for 2011 is forecast to increase by 3.5% this year, adding another 115,000 b/d to the country's total oil demand.

Graph 4.7: Yearly changes in Indian oil demand (12 month moving averages)

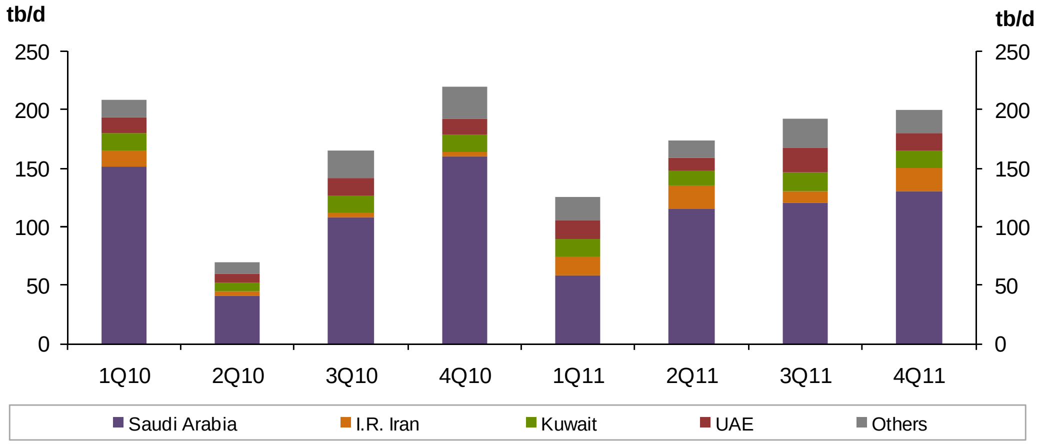


Indian auto sales were up by 13% in March from a year ago, according to the latest data released by the Society of Indian Automobile Manufacturers. One important reason for this weakening growth was the increase in interest rates, which implied reduced liquidity.

Taiwan economic growth is forecast to be half that of last year, reaching 4.2% and reducing the country's forecast oil demand growth by a third. Taiwan's oil demand growth last year was 36,000 b/d and this year's is estimated to be 21,000 b/d. However, other factors, such as taxes and high retail prices, might have a reflex effect on total demand. First-quarter oil demand did not achieve what was expected and, if this behaviour lasts for the second quarter, then the possibility of further oil demand growth will be questionable.

Given the recent strength in India's oil demand, 'Other Asia' oil demand growth is forecast at 0.2 mb/d in 2011, averaging 10.3 mb/d.

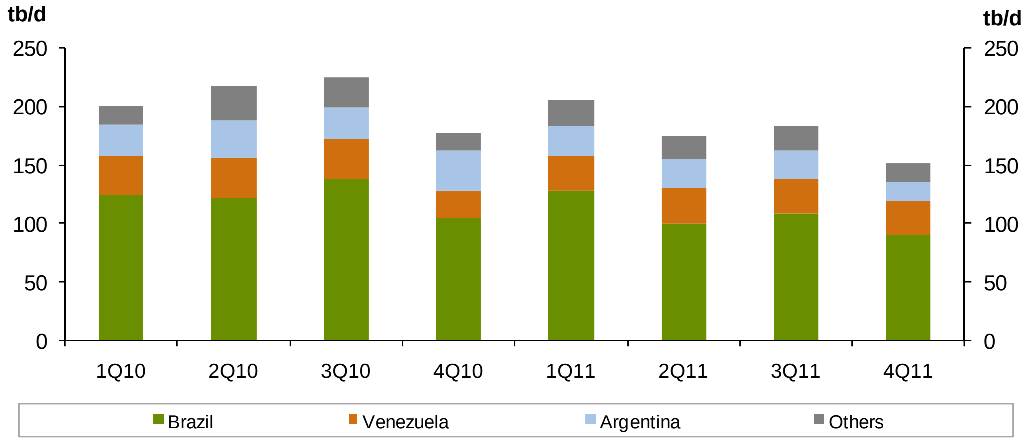
Graph 4.8: Yearly oil demand growth in the Middle East



Middle East oil demand growth forecast at 0.2 mb/d in 2011

Springtime is a time of low seasonality in the Middle East for oil demand. Electricity demand plunged as a result of a cool climate, leading to a huge reduction in demand for both fuel oil and crude-burning. Saudi fuel oil demand in March contracted by 16.4% y-o-y, averaging 0.2 mb/d. Furthermore, demand for direct crude-burning also declined by 13.3% in March y-o-y. Despite the massive growth in gasoline usage, total Saudi oil demand inched up slightly in March by only 14,000 b/d to average 1.67 mb/d. Saudi demand is anticipated to maintain its forecast annual growth rate as the summer heat begins. As for the first quarter, Saudi demand grew by 6.5% y-o-y. Despite the slight decline in Iran's oil demand, Middle East oil demand is expected to grow by 2.7% this year. Middle East demand growth is forecast at 0.2 mb/d to average 7.5 mb/d.

Graph 4.9: Yearly oil demand growth in Latin America

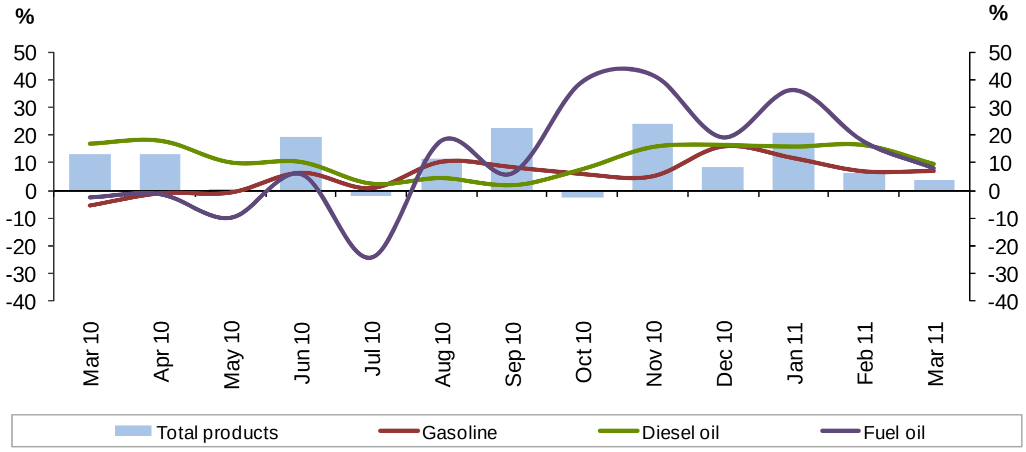


Other regions

Demand in China expected to grow by 0.56 mb/d in 2011

The Chinese economy continues to outpace expectations. This will, of course, have implications for the country's oil demand. Early data for March indicated massive y-o-y growth in the country's oil demand, reaching 10.2% or 0.9 mb/d. However, 26% of that growth is attributed to oil drawn from commercial stocks. China has the tendency to use its commercial stocks for demand. During the first two months in the year, commercial stocks increased by 740,000 and 620,000 b/d respectively. Ever since the Chinese started to publish data regarding oil stocks, the method used to calculate the country's demand has been to assume changes in stock levels. In other words, none of the oil which ends up in stocks will be considered demand; however, when it is pulled out of storage and used, then it is counted as demand.

Graph 4.10: Changes in Chinese main oil products apparent consumption, y-o-y



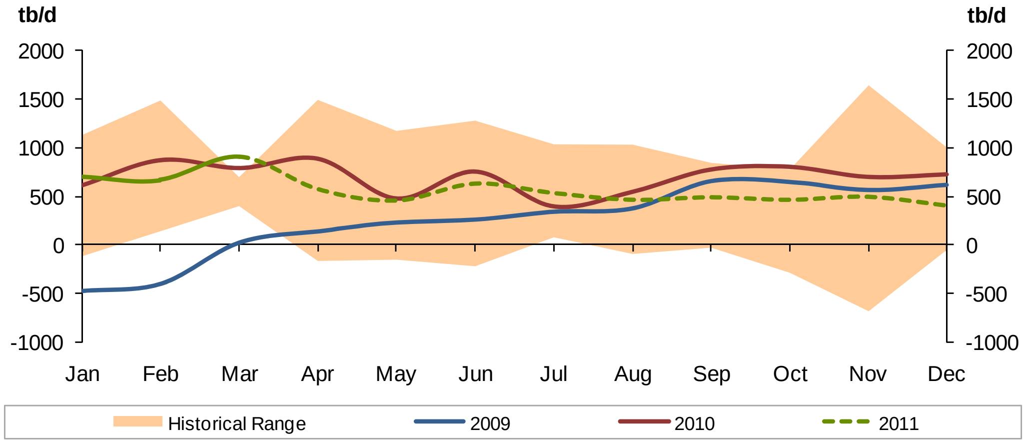
This unexpected increase in China's oil demand in March indicated an upward revision of 0.2 mb/d to the country's oil demand in the first quarter. As expected, diesel demand saw the highest growth in March, adding another 0.3 mb/d. It is anticipated that the country might have an electricity shortage this summer and, therefore, extra independent diesel generators would be used as a result. Operating independent electricity generators would of course hike demand for diesel, as was seen last year and back in 2006.

Although the country is allowing domestic petroleum product prices to follow international prices, China's oil demand is forecast to repeat last year's trend and achieve high annual growth. Chinese ex-refinery prices for gasoline, diesel and jet fuel increased in April by 500 yuan.

Due to strong economic growth, China's energy demand is expected to increase by 0.56 mb/d in 2011 to average 9.5 mb/d.

Data from the China Association of Automobile Manufacturers shows that automakers in China delivered 1,828,500 new vehicles in March, 44% more than in February and 5% more than in March of 2010. This was the smallest y-o-y growth rate in the last two years, as government incentives for buying cars with small engines ended.

Graph 4.11: Changes in Chinese apparent oil demand, y-o-y



World Oil Supply

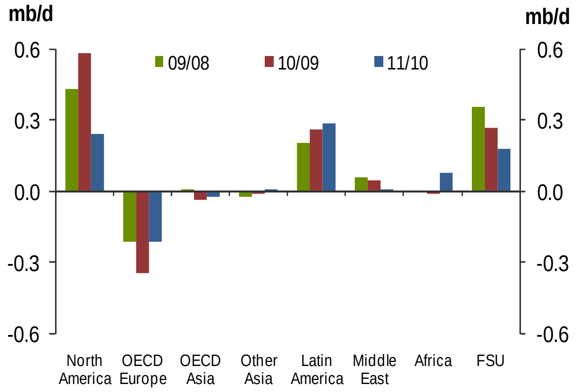
Non-OPEC supply increased by 1.12 mb/d in 2010

Non-OPEC

Estimate for 2010

Non-OPEC supply is estimated to have averaged 52.26 mb/d in 2010, representing growth of 1.12 mb/d. This figure has remained broadly unchanged since the last report, despite some revisions. These revisions applied to all quarters of 2010, in addition to various other historical adjustments that affected the supply estimate in recent years. The estimates for Canada, Indonesia, Argentina, Brazil, Yemen and Sudan experienced the revisions for 2010, compared with the previous month. There were historical revisions to the production data for Sudan and other countries for the period from 2004 to 2009. The revisions to the 2010 supply estimate offset each other.

Graph 5.1: Regional non-OPEC supply growth, y-o-y



In 2010, non-OPEC supply experienced strong growth, which represented the largest increase since 2002. This happened despite a major incident in the Gulf of Mexico. North American oil supply in 2010 shows the highest growth among all non-OPEC regions, with growth from the US and Canada offsetting the drop in Mexican oil output. FSU supply is estimated to have had the second-largest growth among non-OPEC regions in 2010, supported in particular by figures for Russia and Kazakhstan. Estimated growth in Latin American oil production was next, driven mainly by Brazil and Colombia. OECD North-West Europe remained the region with the biggest supply decline in 2010, on the back of the natural decline in Norway. On a quarterly basis, non-OPEC supply in 2010 is estimated at 52.12 mb/d, 52.11 mb/d, 51.93 mb/d and 52.87 mb/d respectively.

Table 5.1: Non-OPEC oil supply in 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09
North America	14.37	14.72	14.86	14.92	15.31	14.96	0.59
Western Europe	4.73	4.71	4.41	4.02	4.41	4.39	-0.34
OECD Pacific	0.64	0.62	0.60	0.60	0.57	0.60	-0.04
Total OECD	**19.73**	**20.05**	**19.87**	**19.54**	**20.30**	**19.94**	**0.21**
Other Asia	3.70	3.67	3.67	3.72	3.71	3.69	-0.01
Latin America	4.40	4.61	4.68	4.68	4.69	4.66	0.26
Middle East	1.74	1.79	1.78	1.78	1.79	1.78	0.04
Africa	2.61	2.61	2.59	2.62	2.59	2.60	-0.01
Total DCs	**12.46**	**12.67**	**12.73**	**12.79**	**12.79**	**12.74**	**0.29**
FSU	12.96	13.16	13.20	13.21	13.33	13.22	0.27
Other Europe	0.14	0.14	0.14	0.14	0.13	0.14	0.00
China	3.85	4.03	4.10	4.18	4.25	4.14	0.29
Total "Other regions"	**16.95**	**17.32**	**17.43**	**17.52**	**17.71**	**17.50**	**0.55**
Total Non-OPEC production	**49.14**	**50.04**	**50.03**	**49.85**	**50.79**	**50.18**	**1.04**
Processing gains	2.00	2.08	2.08	2.08	2.08	2.08	0.08
Total Non-OPEC supply	**51.14**	**52.12**	**52.11**	**51.93**	**52.87**	**52.26**	**1.12**
Previous estimate	51.13	52.13	52.11	51.93	52.86	52.26	1.13
Revision	0.01	-0.01	0.00	0.00	0.00	0.00	-0.01

Revisions to the 2010 estimate

The bulk of this month's revisions came from Canada, Indonesia, Yemen and Sudan, as recently received data indicated higher production in 2010. On the other hand, updated data for Argentina and Brazil resulted in offsetting downward revisions.

Non-OPEC supply expected to grow by 0.65 mb/d in 2011

Forecast for 2011

Non-OPEC supply is forecast to increase by 0.65 mb/d in 2011 to average 52.91 mb/d, representing an upward revision of 65,000 b/d, compared with the previous report. Healthy production figures by many non-OPEC producers, as well as changes to start-up and ramp-up schedules, have supported this revision. The first quarter experienced a minor downward revision of 20,000 b/d, which was partially carried over from a historical revision that dates back to 2004. The remaining quarters' supply expectations expereinced upward revisions, with the second half of the year seeing the largest. The overall supply forecast remained relatively stable, with Developing Countries (DCs) expected to have the highest growth, followed by North America and the FSU, while OECD Western Europe supply is projected to decline. On a quarterly basis, non-OPEC supply is seen to average 52.87 mb/d, 52.69 mb/d, 52.71 mb/d and 53.35 mb/d respectively.

Table 5.2: Non-OPEC oil supply in 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
North America	14.96	15.30	15.15	15.08	15.27	15.20	0.24
Western Europe	4.39	4.34	4.11	4.04	4.19	4.17	-0.22
OECD Pacific	0.60	0.53	0.60	0.60	0.58	0.58	-0.02
Total OECD	**19.94**	**20.16**	**19.85**	**19.72**	**20.04**	**19.94**	**0.00**
Other Asia	3.69	3.68	3.67	3.71	3.73	3.70	0.00
Latin America	4.66	4.80	4.92	4.98	5.11	4.95	0.29
Middle East	1.78	1.78	1.78	1.80	1.81	1.79	0.01
Africa	2.60	2.64	2.65	2.70	2.74	2.68	0.08
Total DCs	**12.74**	**12.90**	**13.01**	**13.19**	**13.38**	**13.12**	**0.38**
FSU	13.22	13.38	13.40	13.36	13.45	13.40	0.18
Other Europe	0.14	0.14	0.14	0.14	0.14	0.14	0.00
China	4.14	4.22	4.21	4.22	4.25	4.23	0.09
Total "Other regions"	**17.50**	**17.74**	**17.75**	**17.72**	**17.84**	**17.76**	**0.27**
Total Non-OPEC production	**50.18**	**50.80**	**50.61**	**50.63**	**51.27**	**50.83**	**0.65**
Processing gains	2.08	2.08	2.08	2.08	2.08	2.08	0.00
Total Non-OPEC supply	**52.26**	**52.87**	**52.69**	**52.71**	**53.35**	**52.91**	**0.65**
Previous estimate	52.26	52.89	52.65	52.60	53.22	52.84	0.58
Revision	0.00	-0.02	0.03	0.11	0.13	0.06	0.07

OECD

North American expected growth to offset Other OECD decline in 2011

Total OECD oil supply is expected to average 19.94 mb/d in 2011, flat with the previous year and unchanged from the last report. Despite this steady state, the supply profiles for all major OECD producers experienced revisions that offset each other. Among OECD regions, North America is expected to have the biggest growth in 2011, while OECD Pacific is seen as remaining relatively steady and OECD Western Europe projected to continue to decline.

Graph 5.2: OECD's quarterly production

Compared with the previous assessment, supply forecasts from Canada and Mexico experienced upward revisions, while the supply forecasts for the US, Norway, the UK, Denmark, and Other Western Europe underwent downward revisions. The highest upward adjustment was to Canada's supply, due to historical revisions and adjustments to first-quarter supply. The anticipated growth from North America is seen as offsetting the expected decline in OECD Western Europe. On a quarterly basis, OECD oil supply is forecast to average 20.16 mb/d, 19.85 mb/d, 19.72 mb/d and 20.04 mb/d respectively. Total OECD supply stood at 20.16 mb/d in the first quarter of 2011, according to preliminary data, which indicated a decline of around 140,000 b/d, compared with the fourth quarter of 2010, yet it represents growth of 120,000 b/d, compared with the first quarter of 2010.

North America

North America's oil production is projected to increase by 0.24 mb/d in 2011 to average 15.20 mb/d, representing an upward revision of 40,000 b/d. Canada's oil supply is seen as leading the growth in 2011, followed by that of the US, while Mexico's oil supply is expected to decline slightly. North America's anticipated supply growth in 2011 is the second-highest regional growth among all the non-OPEC regions. On a quarterly basis, North America's oil supply in 2011 is expected to stand at 15.30 mb/d, 15.15 mb/d, 15.08 mb/d and 15.27 mb/d respectively.

US

Non-conventional oil seen strongly supporting US output in 2011

US oil supply is seen increasing by 0.12 mb/d to average 8.72 mb/d in 2011, constituting a minor downward revision from the previous assessment. This minor revision came from an adjustment to first-quarter supply, which was slightly lower than previously anticipated. US output is expected to decline in the second and third quarters, before recovering in the fourth. The expected growth in 2011 is supported mainly from non-conventional oil production, as the slowdown in drilling activity in the Gulf of Mexico is seen to affect production. Additionally, the natural declines in Alaska and the Gulf of Mexico are expected to reduce output, when coupled with limited drilling activity.

However, the healthy level of growth that was experienced and is expected to continue from the Bakken and Eagle Ford formations is regarded as a strong supporter of US output in 2011. The new pipeline developments connecting the Eagle Ford output further support the anticipated strong growth of US shale oil. However, a high level of risk remains associated with the US supply forecast, mainly on the back of the upcoming hurricane season. On a quarterly basis, US oil supply is seen to average 8.75 mb/d 8.72 mb/d, 8.67 mb/d and 8.74 mb/d respectively. According to preliminary data, it is estimated to have grown by 0.31 mb/d in the first quarter, compared with the same period in 2010.

Canada and Mexico

Canadian oil sand output expected to support supply with expected growth of 0.15 mb/d in 2011

Oil production from Canada is forecast to increase by 0.15 mb/d, the second-largest among all non-OPEC countries, to average 3.55 mb/d in 2011, indicating an upward revision of 40,000 b/d from the previous month, the largest of all the revisions in this month's report. The upward revision was introduced due to historical revisions, in addition to the healthy level of production during the first quarter, according to the preliminary data. The revision for the first quarter was partially carried over towards the rest of the year. The strong output, despite the shutdown of some capacity due to accidents, is supported by the ramp-up of the oil sands development. Additionally, the Husky project was repaired after the fire in February and running close to its full capacity, and this has further supported the upward revision. However, the expected shutdown of one of the Syncrude Cokers towards the fourth quarter will affect the output negatively. On a quarterly basis, Canada's production is anticipated to average 3.57 mb/d, 3.49 mb/d, 3.51 mb/d and 3.60 mb/d respectively.

Mexican supply to be more stable in 2011

Mexican oil production is seen to average 2.93 mb/d in 2011, a decline of 30,000 b/d over 2010, indicating a minor upward revision of 5,000 b/d, compared with last month's assessment. Stable production in the first quarter of the year, which was higher than in the fourth quarter of 2010, brought about the upward revision. Additionally, the healthy production figure of the first half of April further increased the expectation of production stability. Moreover, the reduction of the unproductive wells at the Chicontepec field further supports a stable production level in 2011. On the other hand, the sinking of a platform is expected to generate safety concerns in the coming period. On a quarterly basis, Mexico's oil supply is seen to average 2.97 mb/d, 2.94 mb/d, 2.90 mb/d and 2.92 mb/d respectively. Preliminary data show that Mexico's production decline by 20,000 b/d in the first quarter, compared with the same period in 2011.

Western Europe

OECD Western Europe's total oil supply is forecast to decline by 0.22 mb/d to average 4.17 mb/d in 2011, a downward revision of 40,000 b/d, compared with the previous month. All quarters experienced revisions, with the first quarter having the largest downward adjustment, while the rest of the year's quarters encountered minor downward revisions. The downward revision came on the back of adjustments to recently updated production data in the first quarter, in addition to historical changes. Various other issues necessitated the other minor downward revisions. On a quarterly basis, OECD Western Europe supply is seen to average 4.34 mb/d, 4.11 mb/d, 4.04 mb/d and 4.19 mb/d respectively. Preliminary first-quarter estimates indicate that output declined by 0.37 mb/d, compared with the same period in 2010.

Technical issues continued to affect Norwegian supply so far in 2011

Oil supply from **Norway** is estimated to decline by 0.13 mb/d to average 2.01 mb/d in 2011, indicating a downward revision of 10,000 b/d, compared with the previous MOMR. The downward revision affected the first-half estimate, with the first quarter influenced by the preliminary current production data. The data indicated that March output dropped, compared with the previous month, mainly on various technical issues, such as the shutdown of Njord and Oseberg East. Additionally, the early maintenance of the Tordis and Kristin fields have affected the forecast during the second quarter. On the other hand, reports indicate that the Gjoa, Vega and Vega South complex output reached around 60,000 b/d in February, the fields having started up in November 2010. The healthy ramp-up of production at the complex partially offsets the decline in other areas. On a quarterly basis, Norway's supply is seen to average 2.13 mb/d, 1.95 mb/d, 1.93 mb/d and 2.03 mb/d respectively. First-quarter supply is estimated to have declined by 0.19 mb/d, compared with the same period of 2010.

UK supply forecast to decline by 60,000 b/d in 2011

UK oil supply is expected to decline by 60,000 b/d to average 1.31 mb/d in 2011, a downward revision of 10,000 b/d, compared with last month. The downward revision affected first-quarter supply, with preliminary production data for the early part of the quarter suggesting lower output than previously expected. The possibility of further downward revisions to first-quarter supply remains on the horizon, as the complete set of data is yet to be reported. The decline in drilling activity on the UK continental shelf in the first quarter, reported to be 25% less than the previous year, supports the downward revision. Moreover, the increased tax on producers has pushed some firms to delay their investment in the UK, such as with the Mariner project. On a quarterly basis, UK oil supply is estimated at 1.35 mb/d, 1.30 mb/d, 1.28 mb/d and 1.31 mb/d respectively. First-quarter preliminary supply data indicate a y-o-y decline of 0.17 mb/d.

Denmark and Other Western Europe oil supply encountered downward revisions of 10,000 b/d and 15,000 b/d respectively, compared with the previous MOMR. The downward revisions came mainly from adjustments to preliminary production data in the first quarter, which was partially carried over to the remaining quarters. Additionally, historic data revisions affected the supply forecasts for 2011.

Asia Pacific

OECD Asia Pacific supply is forecast to decline slightly by 20,000 b/d to average 0.58 mb/d in 2011, flat from the previous month. It is seen to increase in the second quarter, compared with the first quarter, and maintain its level to the end of the year. On a quarterly basis, it is expected to average 0.53 mb/d, 0.60 mb/d, 0.60 mb/d and 0.58 mb/d respectively.

Australian supply to average 0.49 mb/d in 2011

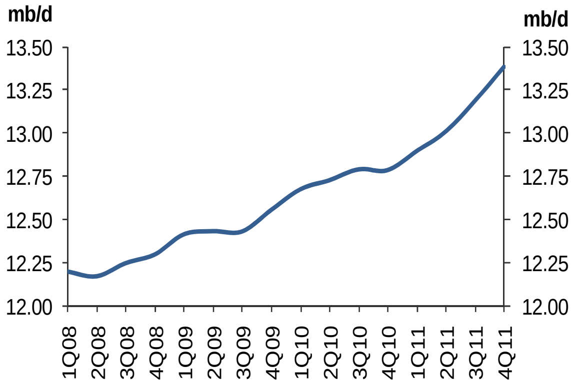
Australian oil production is projected to average 0.49 mb/d in 2011, a minor decrease of 10,000 b/d over the previous year, unchanged from the last report. First-quarter supply was negatively affected by severe weather conditions that forced the shutdown of various fields. However, supply is expected to rebound in the second quarter, on improved weather conditions, as well as new supply additions from project start-ups and ramp-ups. On a quarterly basis, Australian supply is expected to average 0.43 mb/d, 0.50 mb/d, 0.51 mb/d and 0.50 mb/d respectively. During the first quarter, preliminary data indicated that Australian oil production declined by 90,000 b/d, compared with the same period of 2011.

Developing Countries

DC supply to increase by 0.38 mb/d in 2011

Developing Countries' total oil production is anticipated to average 13.12 mb/d in 2011, representing growth of 0.38 mb/d and an upward revision of 30,000 b/d from the last report. Other Asia and the Middle East supported this upward revision, while Latin America and Africa remained steady. The upward revisions apply to the first quarter and the second half of 2011. The first-quarter revision was due to updated production data. The revision for the second half of the year reflects changes to project startups and ramp-ups.

Graph 5.3: Developing Countries' quarterly production



Latin America remains the region with the highest expected growth in 2011, supported by Brazil and Colombia. During the first quarter, preliminary data indicated that DC oil supply increased by 0.22 mb/d, compared with the same period of 2010. On a quarterly basis, DC total oil production is seen at 12.90 mb/d, 13.01 mb/d, 13.19 mb/d and 13.38 mb/d respectively.

Other Asia supply to remain steady in 2011

Oil production from **Other Asia** is seen to average 3.70 mb/d in 2011, flat from the previous year and constituting an upward revision of 10,000 b/d, compared with the previous MOMR. The upward revision came mainly from historical revisions, in addition to updated data for the first quarter. Moreover, changes to individual countries' supply profiles were encountered in this month's assessment. India's oil supply experienced an upward revision of 15,000 b/d, compared with the previous month. It is expected to increase by 60,000 b/d in 2011 to average 0.91 mb/d. This growth is supported by the ramp-up of the developments in Rajasthan. The minor upward revision was mainly due to adjustments to preliminary output data that indicated slightly higher production than expected. The revision to the first quarter was partially carried over to the rest of the year. Other Asia supply is seen to be strongly supported by the anticipated growth from India, since this is the only country where supply has been seen growing in 2011. On a quarterly basis, Other Asia supply is believed to stand at 3.68 mb/d, 3.67 mb/d, 3.71 mb/d and 3.73 mb/d respectively.

Indonesia's oil supply is expected to decline by 40,000 b/d in 2011 to average 0.99 mb/d, indicating a minor upward revision of 5,000 b/d, compared with last month. Despite the minor upward revision, the government was reporting difficulty in achieving the set output target for 2011. The maintenance works have slightly affected output in the first quarter of 2011. Malaysia's oil supply is expected to average 0.67 mb/d in 2011, a decline of 40,000 b/d from the previous year. Despite the anticipated decline, work-over for wells on the Kikeh field is expected to support the output. Vietnam's main producer announced that production could decline slightly in the second quarter, as output is reserved for the Dung Quat refinery and future domestic consumption.

Colombia's output in February reached a new record high

Latin America's supply is projected to average 4.95 mb/d in 2011, which constitutes significant growth of 0.29 mb/d over 2010 and is unchanged from the previous month. This represents the highest regional growth among all non-OPEC regions. Argentina's oil supply is expected to average 0.74 mb/d in 2011, a minor decline of 10,000 b/d from the previous year and flat from the previous *MOMR*. Despite the steady state, there were revisions in all quarters that offset each other. First-quarter oil supply has been revised up, due to healthy biodiesel production. The strike at the Santa Cruz province, that produces 15% of the country's oil and which started in early April, required a downward revision in the second quarter. The strike action was reported to have ended at the end of April. Colombia's oil supply is anticipated to increase by 0.11 mb/d in 2011 to average 0.91 mb/d, indicating an upward revision of 10,000 b/d, compared with last month. The upward revision was supported by the healthy production figure in the first quarter and April, where output remained above the 0.9 mb/d mark. The government is reporting that Colombia's output is on course to reach 1.0 mb/d by year-end. On the other hand, the attack on the Cano Limon-Covenas pipeline, which halted the pumping of oil, did not affect production and exports immediately, but could negatively affect the forecast in the coming months. On a quarterly basis, Latin American supply is expected to stand at 4.80 mb/d, 4.92 mb/d, 4.98 mb/d and 5.11 mb/d respectively. Preliminary data indicates that Latin America's production increased by 0.2 mb/d in the first quarter of 2011, compared with the same period of 2010.

Brazil's oil supply is expected to increase by 0.19 mb/d in 2011 to average 2.85 mb/d in 2011, indicating a minor downward revision of less than 10,000 b/d, compared with the previous MOMR. This revision came from the first quarter, as preliminary data indicated slightly lower output than previously expected. The data indicated that March output was higher than in February, as platforms returned from maintenance. Brazil's expected growth remains the highest among all non-OPEC countries in 2011. The start-up of the Peregrino field supports this growth; the field is expected to reach a peak of 100,000 b/d within a year. Furthermore, the start-up of the third extended well test at the Lula project, which is seen to reach 70,000 b/d by year-end, further supports the anticipated growth. On the other hand, the high price of sugar is driving producers to reduce ethanol production, which could negatively affect growth in 2011. On a quarterly basis, Brazil's oil supply is predicted to stand at 2.72 mb/d, 2.84 mb/d, 2.87 mb/d and 2.96 mb/d respectively. Preliminary data indicate that Brazil's production increased by 0.11 mb/d in the first quarter of 2011, compared with a year earlier.

Reports suggest that half of Yemen's oil output halted on pipeline attacks

Middle East oil supply is seen to remain steady from 2010, with a minor increase of 10,000 b/d to average 1.79 mb/d in 2011, relatively flat from the previous assessment. Overall supply from the Middle East remains unchanged, with enhanced oil recovery (EOR)-driven growth from Oman seen to offset the declines from Syria and Yemen. Oman's oil production is expected to increase in the second quarter, as Harweel EOR starts operating. Syria's oil supply is forecast to drop in 2011, with the decline of mature fields. The anticipated output decreases are expected, despite the slight increase that was experienced on annual basis for the first quarter's output. Yemen's oil supply is expected to decline by 30,000 b/d in 2011. Historical revisions to the country's oil supply affected the forecast for 2011. However, this forecast could experience further downward revision in the coming months, as reports in early May suggested that half the country's output was shut down due to pipeline attacks and the political situation. On a quarterly basis, Middle East supply is expected to average 1.78 mb/d, 1.78 mb/d, 1.80 mb/d and 1.80 mb/d respectively.

Ghana's Jubilee output reached 80,000 b/d in April

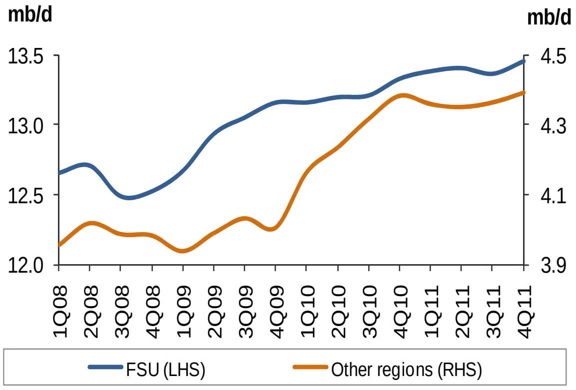
Africa's oil production is expected to increase by 80,000 b/d to average 2.68 mb/d in 2011, flat compared with the previous month. Despite the steady state, minor upward and downward revisions offset each other. Sudan's oil supply forecast has been revised down, mainly due to historical revisions. On the other hand, production at the Jubilee oil field in Ghana was reported to have reached around 80,000 b/d in April, and is expected to reach 120,000 b/d in the third quarter. Accordingly, an upward revision was introduced to reflect the strong ramp-up. On a quarterly basis, Africa's oil supply is seen to average 2.64 mb/d, 2.65 mb/d, 2.70 mb/d and 2.74 mb/d respectively.

FSU, Other Regions

FSU supply to average 13.40 mb/d in 2011

The FSU's total oil production is projected to increase by 0.18 mb/d to 13.40 mb/d in 2011, displaying an upward revision of 40,000 b/d, compared with the last *MOMR*. This revision adjusts for preliminary production data for the first quarter. Additionally, changes to project startups and ramp-ups supported the revision. The revision affected the supply forecasts of Russia, Kazakhstan, Azerbaijan and Other FSU.

Graph 5.4: FSU and other region's quarterly production



FSU supply remains one of the main growth areas for non-OPEC supply in 2011. In the first quarter of 2011, preliminary data indicate that FSU oil supply increased by 0.22 mb/d, compared with the same period of 2010. On a quarterly basis, total oil supply in the FSU is expected to stand at 13.38 mb/d, 13.40 mb/d, 13.36 mb/d and 13.45 mb/d respectively. Other Europe supply is seen to remain steady and average 0.14 mb/d in 2011, unchanged from the previous assessment. China's oil supply is expected to grow by 90,000 b/d over the previous year to average 4.23 mb/d in 2011.

Russia

Tax break comes to end for Vankor

Total Russian oil production is predicted to rise by 50,000 b/d to average 10.19 mb/d in 2011, constituting a minor downward revision of less than 10,000 b/d, compared with the previous month. This revision partially reflected the announced revision to the Vankor field, where output projections for 2011 have been adjusted downward by the operator. The ending of tax breaks in May 2011 to some extent prompted the Vankor field's operator to revise down production plans in 2011. On the other hand, the strong production figure during April, as per preliminary data, partially offset the downward revision. Moreover, reports of the expected start-up of the small Visovoye field in the summer further offset the downward revision.

On a quarterly basis, Russian oil supply is seen to average 10.21 mb/d, 10.20 mb/d, 10.16 mb/d and 10.18 mb/d respectively. In April, Russian oil supply averaged 10.25 mb/d, an increase of around 50,000 b/d, compared with the previous month, and growth of 170,000 b/d, compared with the same period of 2010, according to preliminary data.

Caspian

Kazakh output to increase by 70,000 b/d in 2011

Kazakhstan's oil production is anticipated to average 1.67 mb/d in 2011, an increase of 70,000 b/d over 2010, showing an upward revision of 15,000 b/d, compared with the previous *MOMR*. This revision came in the second, third and fourth quarters, which more than offset the downward revision encountered in the first quarter. Updated production data in the first quarter indicated slightly lower output than previously expected. This slightly lower output was partially driven by the bad weather conditions that affected some projects. Kazakh output is expected to stabilize in the second and third quarters, before increasing in the fourth. On a quarterly basis, Kazakhstan's supply is expected to stand at 1.66 mb/d, 1.65 mb/d, 1.65 mb/d and 1.71 mb/d respectively. During the first quarter of 2011, its oil production increased by 60,000 b/d, compared with the same period in 2010, according to the preliminary data.

Azerbaijan production to grow by 40,000 b/d in 2011

Azeri oil production is forecast to average 1.11 mb/d in 2011, an increase of 40,000 b/d over 2010 and an upward revision of 25,000 b/d from the previous month. The revision applied to the second, third, and fourth quarters and was due to a reassessment of the volume additions at the Azeri-Chirag-Guneshli (ACG) field. The ACG is expected to continue to add volume to Azerbaijan's supply until the addition from the Shah field. During the first quarter of 2011, Azerbaijan's oil supply increased by 20,000 b/d, compared with the same period of 2010. On a quarterly basis, it is estimated to average 1.07 mb/d, 1.12 mb/d, 1.12 mb/d, and 1.14 mb/d respectively.

China

China's supply increased by 0.2 mb/d in first quarter of 2011 y-o-y

Oil supply from China is believed to increase by 90,000 b/d to average 4.23 mb/d in 2011, unchanged from the last report. There was a minor downward revision that affected the first quarter, yet it did not influence the annual supply estimate. This revision was introduced to adjust for preliminary production data in the first quarter, that was slightly lower than expected. The increase in upstream capital expenditure by major producers is expected to support the growth in China. In the second half of April, four Bohai Bay offshore fields were shut down, due to technical issues with FPSO, which is expected to affect output in the second quarter. Furthermore, an operator reported that higher oil prices affected their oil share and hence influenced growth. On a quarterly basis, China's oil supply is forecast to average 4.22 mb/d, 4.21 mb/d, 4.22 mb/d and 4.25 mb/d respectively. During the first quarter of 2011, preliminary data indicate that it will increase by 0.20 mb/d, compared with the same period of 2010.

OPEC natural gas liquids and non-conventional oils

OPEC NGLs and non-conventional oils are estimated to have averaged 4.90 mb/d in 2010, representing growth of 0.55 mb/d over the previous year. In 2011, OPEC NGLs and non-conventional oils are expected to increase by 0.40 mb/d over the previous year to average 5.31 mb/d.

Table 5.3: OPEC NGLs + non-conventional oils, 2008-2011

	2008	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	2011	Change 11/10
Total OPEC	**4.14**	**4.35**	0.21	4.66	4.81	5.15	5.00	**4.90**	0.55	**5.31**	0.40

OPEC crude oil production

OPEC production rose 70 tb/d to average 28.99 mb/d in April

Total OPEC crude oil production averaged 28.99 mb/d in April, according to secondary sources, indicating an increase of 70 tb/d from the previous month. Libya and Angola crude oil production experienced declines of more than 100 tb/d in April compared to the previous month, while Saudi Arabia, Nigeria, the UAE, Iraq and Kuwait output increased. OPEC crude oil production, excluding Iraq, stood at 26.33 mb/d in April, up 45 tb/d from the previous month.

Table 5.4: OPEC crude oil production based on secondary sources, 1,000 b/d

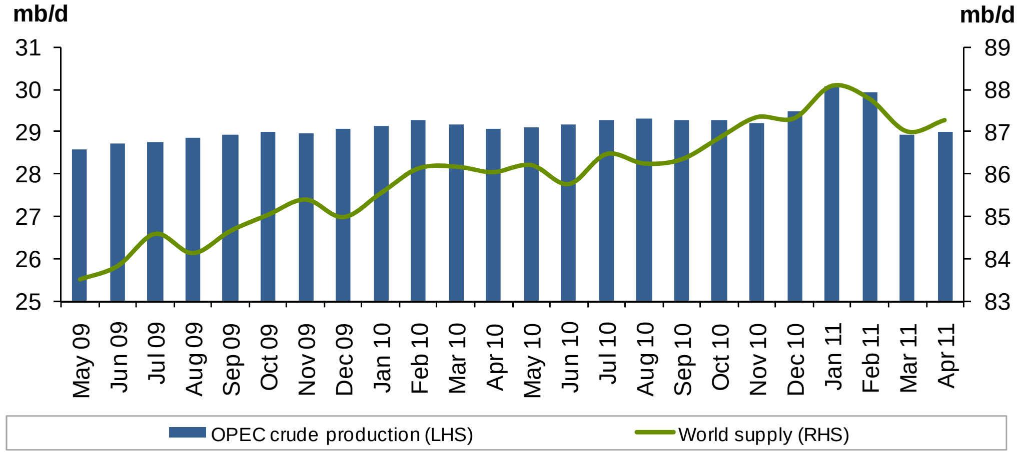
	2009	2010	3Q10	4Q10	1Q11	Feb 11	Mar 11	Apr 11	Apr/Mar
Algeria	1,270	1,261	1,255	1,258	1,265	1,265	1,266	1,260	*-6.3*
Angola	1,786	1,792	1,749	1,661	1,671	1,655	1,710	1,598	*-111.8*
Ecuador	477	475	475	480	484	485	482	483	*0.3*
Iran, I.R.	3,725	3,707	3,682	3,673	3,666	3,663	3,660	3,666	*6.3*
Iraq	2,422	2,399	2,355	2,423	2,647	2,643	2,632	2,655	*23.9*
Kuwait	2,263	2,301	2,313	2,310	2,377	2,358	2,431	2,454	*22.5*
Libya, S.P.A.J.	1,557	1,560	1,567	1,569	1,097	1,360	375	240	*-135.3*
Nigeria	1,812	2,063	2,115	2,175	2,088	2,084	1,991	2,095	*104.3*
Qatar	781	803	805	805	808	807	811	816	*5.5*
Saudi Arabia	8,051	8,273	8,370	8,376	8,779	8,920	8,755	8,885	*130.4*
UAE	2,256	2,306	2,318	2,315	2,439	2,422	2,494	2,521	*26.3*
Venezuela	2,309	2,286	2,285	2,275	2,318	2,289	2,310	2,312	*2.4*
Total OPEC	**28,708**	**29,226**	**29,289**	**29,320**	**29,639**	**29,950**	**28,916**	**28,985**	***68.6***
OPEC excl. Iraq	**26,286**	**26,828**	**26,934**	**26,897**	**26,992**	**27,307**	**26,285**	**26,329**	***44.7***

Totals may not add due to independent rounding

World Oil Supply

Preliminary figures indicate that global oil supply experienced an increase of 0.27 mb/d in April compared to the previous month. This was due to a 0.20 mb/d increase in non-OPEC supply as well as a 70 tb/d rise in OPEC production. The share of OPEC crude oil in global production remained steady at 33.2% in April. The estimate is based on preliminary data from non-OPEC supply, OPEC NGLs and OPEC production. Estimates for OPEC NGLs and OPEC production are derived from secondary sources.

Graph 5.5: OPEC and world oil supply

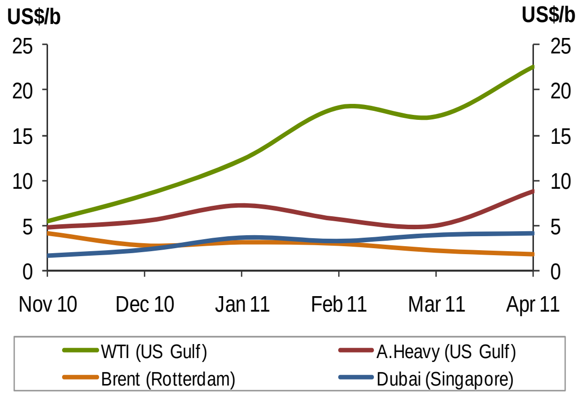


Product Markets and Refinery Operations

Gasoline demand improved ahead of driving season

Product markets were impacted in March by the tragic events in Japan, which negatively affected top of the barrel components. However, this situation reversed in April and light distillate demand resulted in a more positive sentiment in the product markets during the month.

Graph 6.1: Refining margins, 2010-2011



Gasoline consumption improved ahead of the summer driving season, generating an early bullish sentiment as stocks dropped sharply in the US in April. This was fuelled by several factors, such as stronger demand despite higher prices at the pump, temporary shortfalls in high-octane compounds due to operational problems at several refinery units, lower import availability from Europe due to reduced refinery runs and the transition from winter to summer grades, as well as higher requirements for gasoline compounds due to the shortage of ethanol in Brazil.

US refining industry performance remained healthy in April on the back of strong gains at the top of the barrel – gasoline and naphtha – while middle distillate cracks maintained the healthy levels of the previous month. The margin for WTI crude on the US Gulf Coast showed a sharp increase of $5/b to stand at over $22/b. However, such high margins have been artificially inflated by the relatively low benchmark WTI price, which has disconnected from other benchmark grades. During the last part of April, Cushing stocks dropped and WTI showed a strong gain in spot prices (more than $4/b), leading to a correction in the high crack levels. The margin for Arab Heavy crude on the US Gulf Coast was around $9/b, an increase of almost $4/b over the previous month.

In Europe, there was a sustained improvement at the top of the barrel, where gasoline continued to be supported by export opportunities in a tighter environment, due to lower refinery runs and falling stocks in the US. However, this was sufficient to offset the weakness in middle distillate demand and the strength of Brent, which caused the margin in Rotterdam to drop slightly, by 40¢/b.

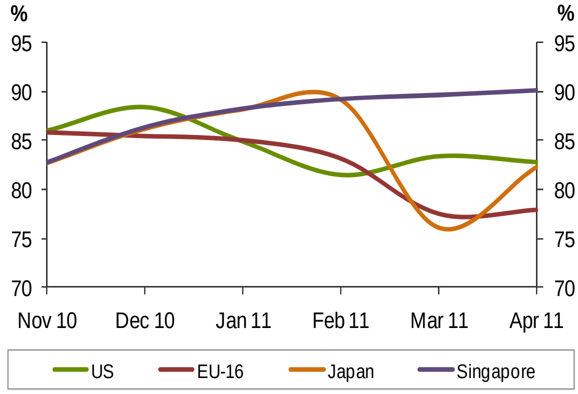
Refining margins for Dubai crude oil in Singapore continued at around the level seen the previous month, on the back of a strong middle distillate crack spread. This, along with the uptick in light distillates, was sufficient to offset the loss in fuel oil, allowing refinery margins to show a slight rise of 20¢/b.

Refinery operations

Japan's refining system back on line

American refiners continued to run at moderate levels in April, as they returned from the turnaround season, amid healthy refining margins and operational problems in some refineries. Refinery runs decreased slightly to average 82.8% in April from 83.4% a month earlier.

Graph 6.2: Refinery utilization rates, 2010-2011



Gasoline demand increased in the US. This, along with the return from maintenance of some cracking units, as well as operational limitations elsewhere, caused gasoline inventories to continue to drop further and boost the bullish sentiment, despite higher retail prices.

The bullish gasoline market situation, along with strong diesel demand, helped refining margins firm in the US.

European refiners continued at moderated throughputs of around 78%, driven by low refinery margins and the maintenance season. In addition, small refineries, with not enough installed hydro-treating/conversion capacity, started to be affected by the shortage of sweet Libyan crude.

Asian refiners increased runs in April to satisfy the growing demand in the region. After the natural disaster in Japan had damaged some refineries, most of them were back on line in April and Japan saw a recovery in refinery throughputs, with run-rates standing at over 82%.

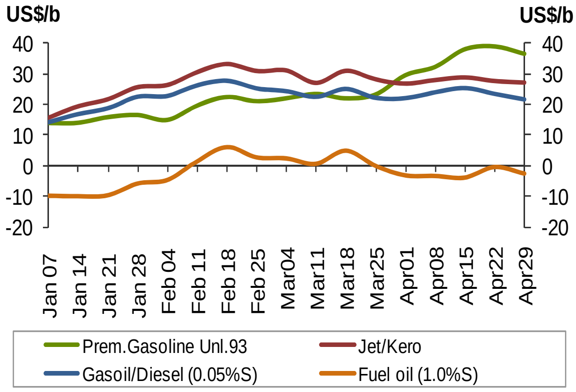
Looking ahead, further improving demand ahead of the driving season and the reduction in product inventories could maintain the bullish sentiment; however, the higher-priced crudes and the spare capacity were expected to continue exerting pressure on refinery margins.

US market

US gasoline market remained bullish

US gasoline demand rose to 9.13 mb/d in April, according to the EIA, a gain of 160 tb/d over the previous month and 27 tb/d above the same month last year.

Graph 6.3: US Gulf crack spread vs. WTI, 2011



The gasoline market strengthened ahead of the driving season. This was on the back of the tight situation on the Gulf and Atlantic coasts caused by operational problems in several high-octane manufacturing (catalytic cracking and alkylation) units and limited imports, due to the transition from winter to summer-grade gasoline. The US gasoline market received further support from increased export opportunities to Latin America, mainly Mexico and Brazil, where additional imports were required to compensate for reduced ethanol availability due to the lower sugar cane harvest.

Bullish factors in the “transition-tight” gasoline market and the relative weakness in WTI allowed the gasoline crack spread on the US Gulf Coast to continue to increase, surpassing $38/b by mid-April. However, the increase in WTI at the end of April, on the back of a slight drop in high Cushing stocks, reduced the crack spread to $36/b by the end of April.

Middle distillate demand remained strong in the US at 3.88 mb/d in April, a gain of 40 tb/d over the previous month and 170 tb/d above the year-on-year average.

The huge increase in the crack level was due to a distortion in the WTI price.

Diesel demand retained part of the support received from stronger trucking activity, although higher prices started to cause worries about the potential impact on demand. Additionally, strong demand for diesel exports to some countries in Latin America – mainly to Colombia – as well as to South Africa, maintained the ground gained in recent months.

Although declining, middle distillate stocks remained above the typical historical average.

The US gasoil crack on the Gulf Coast kept part of the higher level reached in March, remaining over $23/b.

Fuel oil demand dropped on the Atlantic Coast. However, there were export opportunities to Latin America, including Mexico and Colombia. Additionally, limited arbitrage opportunities exerted pressure on the market at the end of the month.

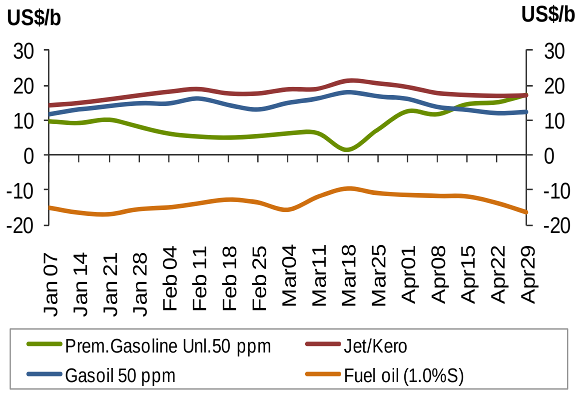
The fuel oil crack decreased to minus $2.8/b from the premium of $1/b over WTI reached the previous month.

European market

Tight light distillates lent support to the European market

Product market sentiment in Europe continued to be mixed, as light distillates remained strong, while middle distillates and fuel oil lost some of their momentum.

Graph 6.4: Rotterdam crack spreads vs. Brent, 2011



The European gasoline market continued the recovery which began at the end of March and even saw an uptick in April. This was on the back of tighter supply, due to lower European refinery runs amid a draw on US gasoline stocks, which made the arbitrage workable. A decline in ARA gasoline stocks in mid-April also provided support.

The gasoline crack spread against Brent crude showed a sharp recovery of more than $7/b to reach an average of $14.3/b in April, the highest value seen in several months.

The European naphtha market stayed strong, on the back of concern about tightening supply due to the lower refinery runs in the region, amid reduced inflows from the Mideast Gulf and the outage in Libyan crude. Additional support for naphtha came from the demand side from export requirements to Brazil, as a blend compound in the gasoline pool, as well as to Egypt, which furthered the bullish sentiment.

Middle distillates weakened in an environment of ample supply amid higher prices, as well as lower seasonal demand in the region, which worsened as the political situation in Syria affected one of the major importers.

The gasoil crack spread against Brent crude at Rotterdam showed a sharp drop of $3/b from an average of $16.4/b in March, to stand at $13.5/b in April.

The European fuel oil market lost part of the ground gained in March. Support from expectations of rising demand in Japan to compensate for the loss of nuclear capacity for power-generation almost disappeared completely, as most of the damaged refineries came back on line.

High-sulphur fuel oil used as bunker fuel saw limited export opportunities to Asia.

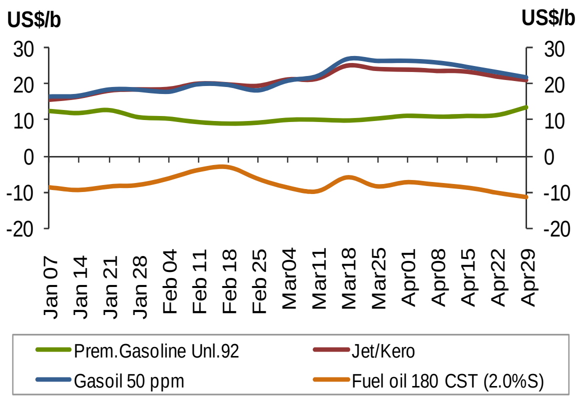
The fuel oil crack spread against Brent lost almost $1/b this month to stand at minus $13/b. The loss was limited by the uncertainty generated by a strike in Greek petroleum refineries.

Asian market

Asian naphtha market recovered lost ground

The Asian naphtha market reversed the negative trend which started in February and the crack turned positive at the end of April, supported by the petrochemical sector, as some naphtha crackers returned from turnarounds. The bullish sentiment was further supported by lower arbitrage inflows from Europe and the Middle East, as well as by news that Japan's Mitsubishi would restart two naphtha crackers in the coming weeks.

Graph 6.5: Singapore crack spreads vs. Dubai, 2011



The gasoline market received support from a tight environment, due to fewer exports from China following a rise in retail prices, as well as higher prompt requirements for Indonesia resulting from a shutdown of the 350-tb/d Cilacap refinery. Additionally, the draw on US gasoline inventories opened a trans-Pacific arbitrage window, which further fuelled bullish market sentiment.

The gasoline crack spread against Dubai crude oil in Singapore showed a sharp gain of $1.4 from an average of $10.2/b in March, to $11.6/b in April.

The middle distillate market remained supported by tighter supply amid stronger regional demand, mainly from China, India and Indonesia. Demand from Vietnam also increased, due to higher requirements after the shutdown of Dung Quat refinery.

The gasoil crack spread in Singapore against Dubai maintained the strong level reached the previous month of around $25/b, which represented the highest level for two years. Support is expected to continue from stronger Asian demand over the peak summer months.

The Asian fuel oil market has continued to lose ground since the end of February due to higher inflows from the West – more than 3.5 million tonnes in April – attracted by higher prices, amid lower-than-expected demand from Japan for power-generation. Another factor fuelling the bearish sentiment has been the reduction in fuel oil imports by Chinese refineries, due to weaker margins.

Following these developments, the high sulphur fuel oil crack spread in Singapore against Dubai dropped from minus $7.9/b on average in March to minus $9/b in April.

Table 6.1: Refinery operations in selected OECD countries

	Refinery throughput, mb/d			Refinery utilization, %		
	Mar 11	Apr 11	Apr/Mar	Mar 11	Apr 11	Apr/Mar
US	14.20	14.14	-0.06	83.40	82.77	-0.63
France	1.08	-	-	58.74	-	-
Germany	1.69	-	-	69.82	-	-
Italy	1.67	-	-	71.54	-	-
UK	1.30	-	-	73.32	-	-
Euro-16	10.13	10.21	0.08	77.30	77.90	0.60
Japan	3.37	3.84	0.47	76.10	82.28	6.18

Sources: OPEC statistics; Argus; Euroilstock Inventory Report; IEA; EIA/DoE; METI; PAJ

Table 6.2: Refined product prices, US$/b

		Feb 11	Mar 11	Apr 11	Change Apr/Mar
US Gulf (Cargoes):					
Naphtha		105.80	118.80	127.39	8.59
Premium gasoline	*(unleaded 93)*	109.47	126.79	145.88	19.09
Regular gasoline	*(unleaded 87)*	105.87	121.94	135.52	13.57
Jet/Kerosene		119.59	131.66	137.70	6.04
Gasoil	*(0.05% S)*	114.98	126.30	133.60	7.30
Fuel oil	*(1.0% S)*	91.38	103.81	106.89	3.08
Fuel oil	*(3.0% S)*	87.94	95.52	101.46	5.94
Rotterdam (Barges FoB):					
Naphtha		97.52	108.61	116.52	7.91
Premium gasoline	*(unleaded 10 ppm)*	109.22	121.94	137.85	15.91
Premium gasoline	*(unleaded 95)*	106.19	117.89	134.02	16.13
Jet/Kerosene		121.69	134.43	140.71	6.28
Gasoil/Diesel	*(10 ppm)*	118.32	126.30	136.52	10.22
Fuel oil	*(1.0% S)*	89.92	102.66	110.48	7.82
Fuel oil	*(3.5% S)*	88.25	95.52	101.85	6.33
Mediterranean					
Naphtha		95.33	105.66	113.49	7.83
Premium gasoline	*(50 ppm)*	112.69	125.47	132.09	6.62
Jet/Kerosene		125.95	131.78	138.73	6.95
Gasoil/Diesel	*(50 ppm)*	115.10	119.47	125.86	6.39
Fuel oil	*(1.0% S)*	99.37	103.15	110.39	7.24
Fuel oil	*(3.5% S)*	97.23	99.57	100.30	0.73
Singapore (Cargoes):					
Naphtha		97.87	107.83	115.38	7.55
Premium gasoline	*(unleaded 95)*	111.84	120.97	129.97	9.01
Regular gasoline	*(unleaded 92)*	109.63	118.87	127.86	8.99
Jet/Kerosene		120.18	131.92	138.69	6.78
Gasoil/Diesel	*(50 ppm)*	119.62	133.51	140.29	6.79
Fuel oil	*(180 cst 2.0% S)*	95.15	100.70	106.62	5.92
Fuel oil	*(380 cst 3.5% S)*	93.27	98.78	104.86	6.08

Tanker Market

Global and OPEC spot fixtures increased in April

OPEC spot fixtures increased in April by 10% to stand at 15.81 mb/d. The gain came mainly from the Middle East. Outside the Middle East, fixtures decreased by 2% in April. Compared to the previous month, global fixtures increased by 4% to stand at 21.55 mb/d. OPEC sailings declined 3% from the previous month to average 22.7 mb/d in April. Arrivals in Europe declined while arrivals in North America and the Far East increased. The increase in the Far East was supported by Japanese fuel demand. Compared to the previous month, arrivals in North America and the Far East increased by 1% and 4% to stand at 8.73 mb/d and 4.37 mb/d. Arrivals in Europe declined by 6% to stand 11.28 mb/d over the same period.

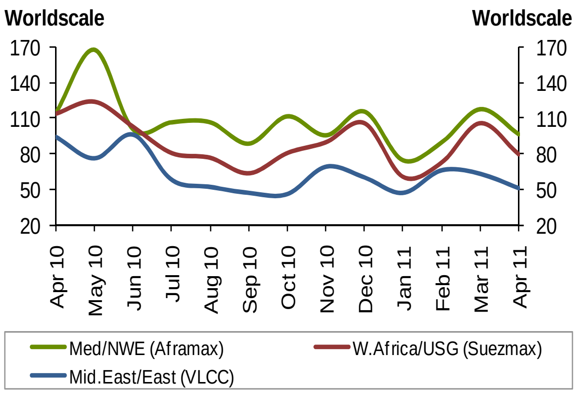
Table 7.1: Tanker chartering, sailings and arrivals, mb/d

	Feb 11	Mar 11	Apr 11	Change Apr/Mar
Spot Chartering				
All areas	17.73	20.69	21.55	0.86
OPEC	11.08	14.40	15.81	1.41
Middle East/East	4.91	6.24	6.67	0.43
Middle East/West	1.30	2.02	3.13	1.11
Outside Middle East	4.87	6.14	6.01	-0.13
Sailings				
OPEC	23.88	23.35	22.70	-0.65
Middle East	17.77	17.50	17.44	-0.06
Arrivals				
North America	8.41	8.62	8.73	0.11
Europe	12.30	12.05	11.28	-0.77
Far East	9.09	8.03	8.32	0.29
West Asia	4.37	4.66	4.37	-0.29

Source: "Oil Movements" and Lloyd's Marine Intelligence Unit

Crude spot freight rates came under pressure in April

Graph 7.1: Monthly averages of crude oil spot freight rates



In April, crude oil tanker market sentiment weakened and average spot freight rates closed down 17% compared to the previous month. For the VLCC sector, average spot freight rates for reported routes decline 19% in April compared to the previous month, while Suezmax dropped 24% and Aframax fell 10%. The overall weakness in spot freight rates in April can be attributed to tonnage oversupply and weak demand due to lower activities, both East and West of the Suez. The weak demand for tonnage was driven by refinery maintenance, lower demand in the Far East as well as the holiday. In contrast, average spot freight rates on the clean market closed up by 7% in April compared to the previous month, with East of Suez rates registering a healthy gain of 16% and West of Suez increasing 5%. Higher petroleum product trade, especially in Asia, supported clean rates in April.

For VLCCs, Middle East to East spot freight rates declined 19%, Middle East to West decreased 11% and West Africa to East dropped 23% in April compared to the previous month. Spot freight rates for VLCCs loading from the Middle East declined on the back of lower Chinese lifts, refining maintenance in India and lower tonnage demand from Japan as refining capacity has remained shut in since the earthquake. Additionally, lower floating storage capacity further increased availability and pressured spot freight rates in April. For Western destinations, VLCC spot freight rates were further influenced by the lower tonnage demand to North West Europe as market participants were off for the Easter holiday.

Suezmax spot freight rates followed a similar pattern to those of VLCCs. West Africa to the US spot freight rates lost ground, declining 25%, and Northwest Europe (NWE) to the US decreased 24% in April compared to the month before.

The decline of Suezmax spot freight rates for deliveries from West Africa to the US was due to lower transatlantic activities backed by the slow return of refineries from turnaround, shutdowns of refineries in the US, as well as lower crude oil lifting from the North Sea as production declined.

Aframax spot freight rates closed down on average by 10% in April compared to the previous month with spot freight rates on all selected routes losing ground except the Indonesia to East route. The gain of Indonesia to East Aframax spot freight rates was partially due to higher fuel oil demand from Japan as many electricity plants and refineries require fuel oil for direct burning to compensate for closed nuclear capacity. In the Mediterranean, Aframax spot freight rates experienced deep declines with Mediterranean to Mediterranean rates losing 25% and Mediterranean to Northwest Europe declining 19% in April compared to the previous month. The decline of spot freight rates in both routes can be attributed to lower activities of trades due to political tension in North Africa.

Caribbean to the US Aframax spot freight rates registered a 7% decline in April compared to the previous month, on the back of shut-downs of refineries in the US.

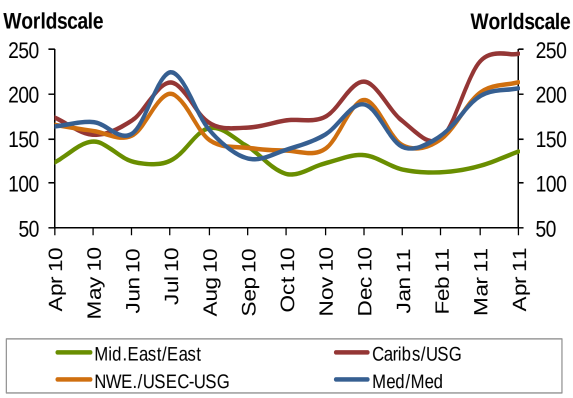
Table 7.2: Spot tanker crude freight rates, Worldscale

	Size *1,000 DWT*	Feb 11	Mar 11	Apr 11	Change Apr/Mar
Crude					
Middle East/East	230-280	66	63	51	-12
Middle East/West	270-285	42	44	39	-5
West Africa/East	260	59	69	53	-16
West Africa/US Gulf Coast	130-135	73	106	80	-26
NW Europe/USEC-USGC	130-135	69	102	78	-24
Indonesia/US West Coast	80-85	90	106	118	12
Caribbean/US East Coast	80-85	93	129	120	-9
Mediterranean/Mediterranean	80-85	98	128	96	-32
Mediterranean/North-West Europe	80-85	90	118	97	-21

Source: Galbraith's Tanker Market Report and Platt's

Product spot freight rates gained ground in April

Graph 7.2: Monthly averages of clean spot freight rates



Sentiments in the clean tanker market were bullish and spot freight rates on all reported routes increased in April compared to a month earlier. East of Suez clean spot freight rates registered healthy growth of 16% and West of Suez edged higher by 5% in April compared to last month.

East of Suez, the Middle East to East clean spot freight rates gained 13% and Singapore to East registered growth of 19% in April over the previous month. The gains on spot freight rates on both routes in April were due partially to higher demand for petroleum products in Japan to relieve the shortage created by the outage in refinery capacity following the earthquake.

West of Suez clean spot freight rates gained 5% on average in April compared to the previous month. In West of Suez, Caribbean to the US clean spot freight rates increased 4%, while from NWE to the US, rates edged 6% higher. Improved gasoline imports in the US, with the approaching driving season, along with open arbitrage, supported rates. In the Mediterranean, clean spot freight rates for inter-Mediterranean voyages increased by 5%, while from the Mediterranean to NWE rates gained 4% in April over the previous month. The increase was supported by higher gasoline trade in preparation for the US driving season.

Table 7.3: Spot tanker product freight rates, Worldscale

	Size *1,000 DWT*	Feb 11	Mar 11	Apr 11	Change Apr/Mar
Products					
Middle East/East	30-35	113	120	136	16
Singapore/East	30-35	134	129	153	24
Caribbean/US Gulf Coast	38-40	151	236	245	9
NW Europe/USEC-USGC	33-37	149	201	213	12
Mediterranean/Mediterranean	30-35	154	198	207	9
Mediterranean/North-West Europe	30-35	164	208	217	9

Source: Galbraith's Tanker Market Report and Platt's

Oil Trade

US crude oil imports fell to 8.7 mb/d in April while product imports recovered to 2.75 mb/d, the second highest so far

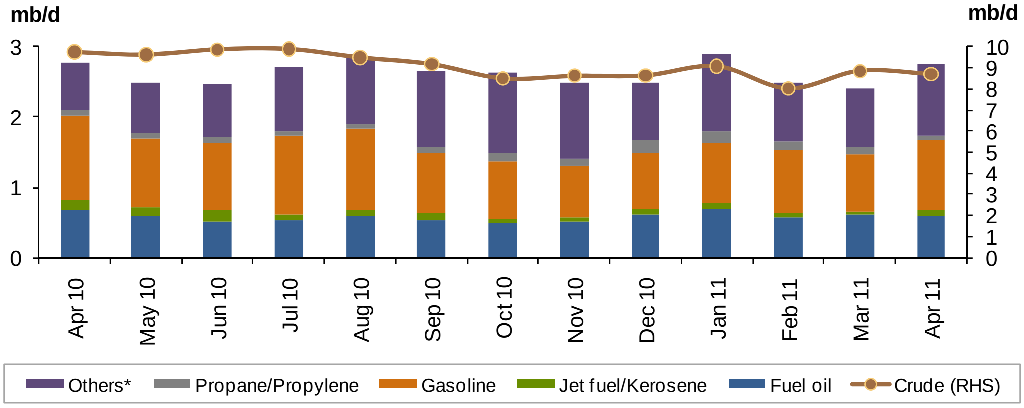
US

US crude oil imports fell 0.15 mb/d or 1.7% in April to average 8.7 mb/d according to the compilation of DOE weekly data. Compared with the same period of last year, US crude oil imports were over 840 tb/d below last year's average. The decline in imports in April at the time when inventories continued to increase and refinery throughput remained below seasonal levels reflects the slowdown in US oil demand.

For the period January-April, crude oil imports stood at 8.7 mb/d this year, down 0.37 mb/d or 4.1% from a year earlier.

In contrast, product imports reversed the downward trend and jumped 0.35 mb/d or 14.7% to average more than 2.75 mb/d in April, almost the same level as a year ago. However, the 2.75 mb/d was the second-highest level so far this year after the 2.9 mb/d of January. Thus, strong imports in January and April caused US product imports to average 2.64 mb/d over the period January-April of this year, up 56 tb/d or 2.2% from a year earlier. The rise in product imports came to compensate for the decline in production of petroleum products from refineries. Gasoline was the main contributor to imports with growth of 182 tb/d or 22% over March to average almost 1 mb/d, the highest since the 1.16 mb/d of last August. The increase in gasoline imports in April was in line with the traditional trend of seeing imports rising during this period ahead of the driving season. Jet fuel/kerosene was the second largest contributor with 34 tb/d, but corresponds to a jump of 77% over the previous month. In contrast, distillates, the second major imported product, saw imports falling 23 tb/d or 3.8% to 0.59 mb/d, which implies a decline of 85tb/d or 12.5% from April 2010.

Graph 8.1: US imports of crude and petroleum products



**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

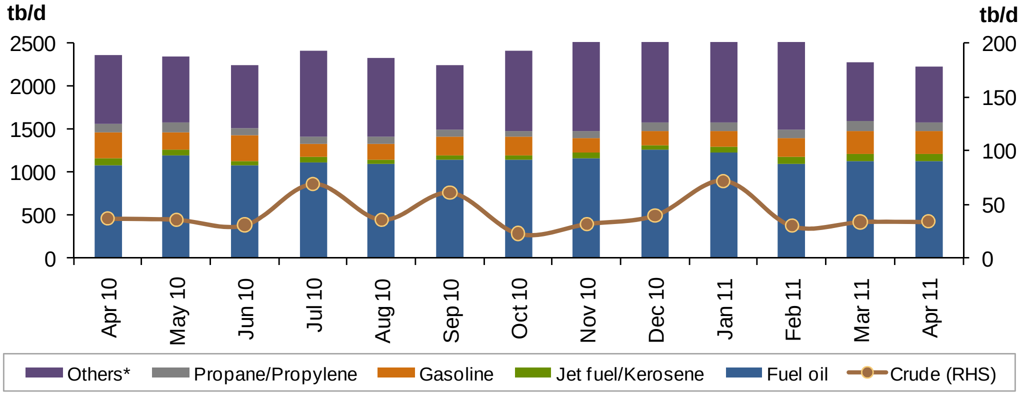
All in all, total US oil imports rose from 11.25 mb/d in March to 11.45 mb/d in April, implying growth of 0.2 mb/d or 1.8%, but they were down 1.0 mb/d or 8.4% from a year earlier. Imports were also down 0.3 mb/d or 2.7% in 2011 considering the period of January-April. This reflects the recent slowdown in oil demand.

Crude oil exports remained stable at 34 tb/d while products fell for the third month in a row to average 2.22 mb/d, down 56 tb/d or 2.5% from March and down 150 tb/d or 5.7% from April 2010. Nevertheless, considering the period covering the four months of the year, US product exports were at 2.1 mb/d in 2011, up 0.36 mb/d or 17.3% from the same period of the previous year. Again, this reflects the weakness in US demand. All types of products saw imports drop in April, except distillates and gasoline which remained almost unchanged at around 1.13 mb/d and 0.27 mb/d, respectively. Jet fuel/kerosene and propane/propylene averaged 81 tb/d and 94 tb/d, respectively, falling by 8%.

Consequently, **US net oil imports rose a further 0.25 mb/d or 2.9% in April to average 9.20 mb/d, the second highest so far this year after January's 9.26 mb/d, but remained 0.92 mb/d lower than a year ago. Similarly, considering the period**

January-April, US net oil imports showed negative y-o-y growth of 0.67 mb/d or 7% this year.

Graph 8.2: US exports of crude and petroleum products



**Others: Contains natural gas liquids, liquefied refinery gases (LRG's), other liquids and all finished petroleum products except gasoline, jet fuel/kerosene, fuel oil and propane/propylene*

The US imported 4.21 mb/d of crude oil from OPEC in February. That was 0.14 mb/d higher than a year ago and corresponds to a share of 50.9% in total US crude oil imports compared to 40.6% in February 2010.

Canada remained the main source of crude imports for the US with 2.19 mb/d or 27.4%. Saudi Arabia was the second largest oil supplier with 1.11 mb/d or 13.9% followed by Mexico with almost 1 mb/d or 12.5%. Imports from Saudi Arabia recovered in the first two months of 2011 to average 1.1 mb/d compared with 0.92 mb/d a year ago. Similarly, imports from Canada moved from an average of 1.89 mb/d to an average 2.17 mb/d in January-February 2011.

On the products side, US imports from OPEC Member Countries averaged 0.43 mb/d or 17.2% of total US petroleum product imports. A year ago, the share was 15.0%. Again Canada kept its position of the main supplier of US product imports with 0.64 mb/d, higher than total imports from OPEC Member Countries. Canada's share stood at 25.6%, 8.5 percentage points more than OPEC's share. Among OPEC Member Countries, Algeria remained the first supplier with 0.26 mb/d or 10.3% followed by Venezuela with 0.11 mb/d or 4.5%.

Table 8.1: US crude and product net imports, tb/d

	Feb 11	Mar 11	Apr 11	Change Apr/Mar
Crude oil	7,983	8,820	8,667	-153
Total products	-54	129	537	409
Total crude and products	**7,929**	**8,949**	**9,204**	**255**

Japan

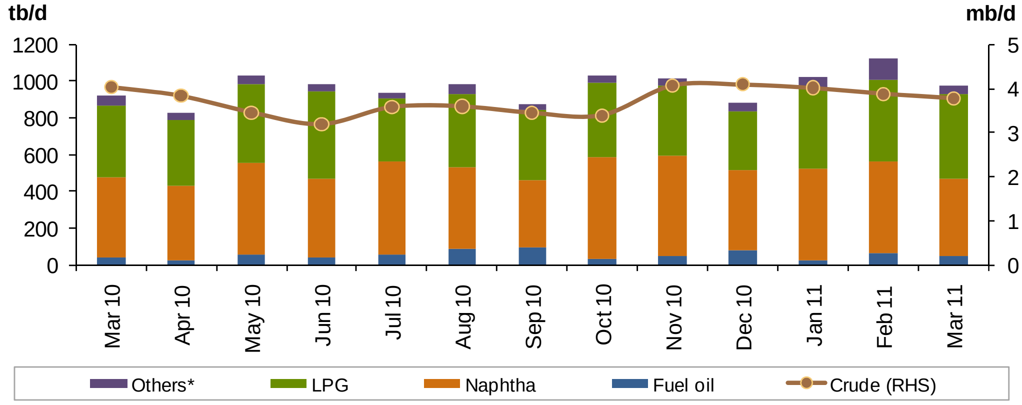
As expected Japan's net oil imports fell in March following the Tsunami-earthquake

Japan's crude oil imports dropped for the third month in a row in March to average 3.8 mb/d, down 0.1 mb/d or 2.6 from the previous month. At 3.8 mb/d, Japan's crude oil imports were 0.25 mb/d or 6.3% lower than a year earlier. The decline in imports came as a result of a brisk and strong fall in demand as some refineries along with port infrastructures were devastated by the tsunami-earthquake of 11 March. Thus, Japan imported 2.6 mb/d on average during the first quarter 2011 compared with almost 4.0 mb/d a year ago. That implies a decline of more than 1.3 mb/d, or one-third. Compared with imports of around 4 mb/d seen in the period 2005-2008 – before the recession – imports are much lower in 2011, reflecting the slowdown in demand.

Product imports also declined in March but at a faster pace to average 0.52 mb/d, down 0.16 mb/d or 23.5%. That was the lowest level since the 0.49 mb/d of September 2010. In the first quarter of this year, product imports stood at 0.42 mb/d, 25% lower than a year earlier. Again the strong decline in product imports was exacerbated by the devastation of the country by the earthquake which resulted in a steep decline in petroleum product sales.

All products declined to their lowest levels so far this year. The main products fell at least by 20%. Gasoil imports took the lead and fell by 65 tb/d or 31% to average 145 tb/d followed by fuel oil which lost 32 tb/d or 22% to stand at a low level of 112 tb/d. Jet fuel and gasoline declined by 29 tb/d and 25% to average 105 tb/d and 38 tb/d, respectively.

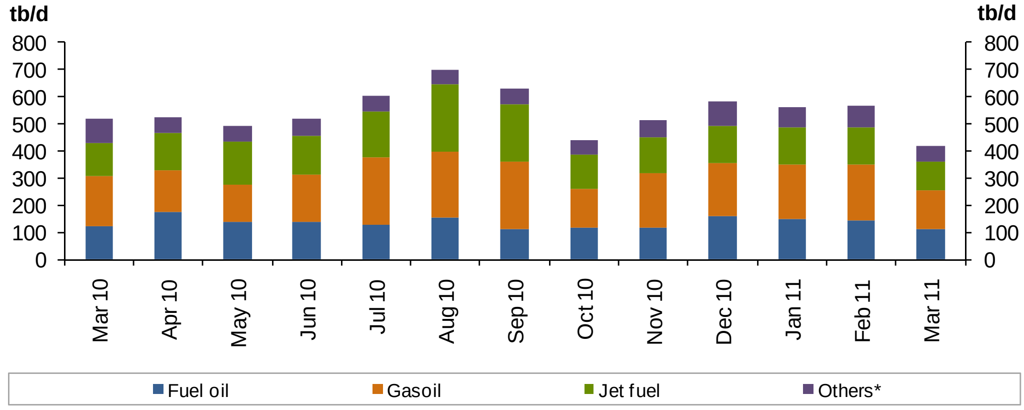
Graph 8.3: Japan's imports of crude and petroleum products



Others: Contains gasoline, jet fuel, kerosene, gasoil, asphalt and paraffin wax

Including LPG, product imports would be at 0.9 mb/d in March, down 13% from a year earlier and resulted in total oil imports – including crude oil – of 4.7 mb/d, down 0.25 mb/d or 5% from the previous month and almost 0.2 mb/d lower than a year ago.

Graph 8.4: Japan's exports of petroleum products



Others: Contains LPG, gasoline, naphtha, kerosene, lubricating oil, asphalt and paraffin wax

Exports also declined because of lower production from refineries and devastated exporting infrastructures. Petroleum product exports including LPG plummeted to 0.42 mb/d, down 150 tb/d or 26% from the previous month and 100 tb/d or 19% from a year earlier.

All in all, **Japan's total net oil imports fell almost 100 tb/d or 2.2% in March to 4.34 mb/d the lowest since the 3.98 mb/d of October 2010. However, if we consider the period of the first quarter, net oil imports averaged 2.97 mb/d so far this year compared with more than 4.42 mb/d in the first quarter 2010.**

Saudi Arabia remained the largest supplier of crude oil to Japan with 1.2 mb/d in March, corresponding to a share of 31.8% of total crude oil imports compared with a share of 29.2% a year ago. It was followed by the United Arab Emirates which accounted for 0.9 mb/d or 24% and Iran with 0.43 mb/d or 11.3%. However, the UAE's share stood below 20% a month ago.

On the product side, Saudi Arabia remained the main supplier with 0.25 mb/d or 25.3% followed by the FSU with 0.22 mb/d or 21.9%. Contrary to the previous month, this time Qatar came in the third position with 0.18 mb/d or 18.2% surpassing the United Arab Emirates which saw its exports to Japan fall from 0.18 mb/d in February to just 0.08 mb/d. Iran also saw its share falling from 11% to 7%.

Table 8.2: Japan's crude and product net imports, tb/d

	Jan 11	Feb 11	Mar 11	Change Mar/Feb
Crude oil	4,015	3,884	3,782	-101
Total products	465	557	561	4
Total crude and products	**4,480**	**4,441**	**4,343**	**-98**

China

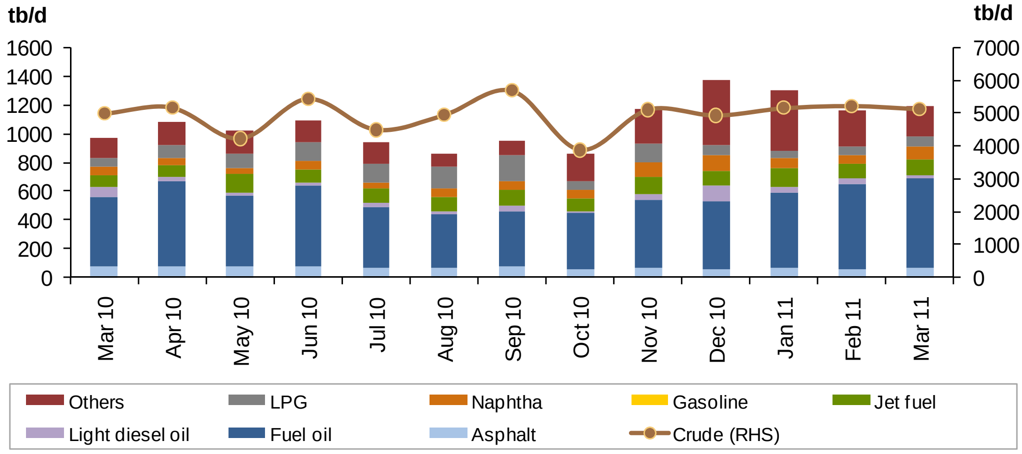
China's net oil imports dropped by 0.29 mb/d in March to 5.49 mb/d, but remained above the year-ago level

China's crude oil imports fell for the first time since last December to average 5.1 mb/d in March. That left crude oil imports down almost 100 tb/d or 1.9% from February's level, the third-highest on record. The drop in imports was due to lower planned demand as some refiners started their seasonal maintenance. However, compared with a year ago, crude oil imports were stronger in 2011 with a y-o-y growth of 144 tb/d or 2.9% this year. The growth was even higher when we consider the period of the first quarter. China imported around 5.2 mb/d in the first there months of 2011 compared with 4.6 mb/d a year ago, implying an increase of more than 0.5 mb/d or 12%. The rise in crude oil imports came as a result of sustained demand which remained the main driver of global oil demand growth. Nevertheless, it cannot be excluded that some of the imports continued to feed government strategic inventories.

Contrary to crude oil, products saw imports rising a modest 30 tb/d to stand slightly below 1.2 mb/d in March, but remained below the 1.3 mb/d of last January. Fuel oil, the largest imported product, was the main contributor to the increase with 40 tb/d on the back of stronger demand in Shandong province, the hub for local refineries. Naphtha and jet fuel imports increased by 21 tb/d and 13 tb/d, respectively. However, when compared with the level of March 2010, Chinese product imports witnessed a much higher growth of almost 23% in 2011 compared with just 2.9% for crude oil. The growth was even stronger when we consider daily imports of the first quarter. Product imports in the first quarter were up 0.3 mb/d or 36% in 2011 at 1.2 mb/d.

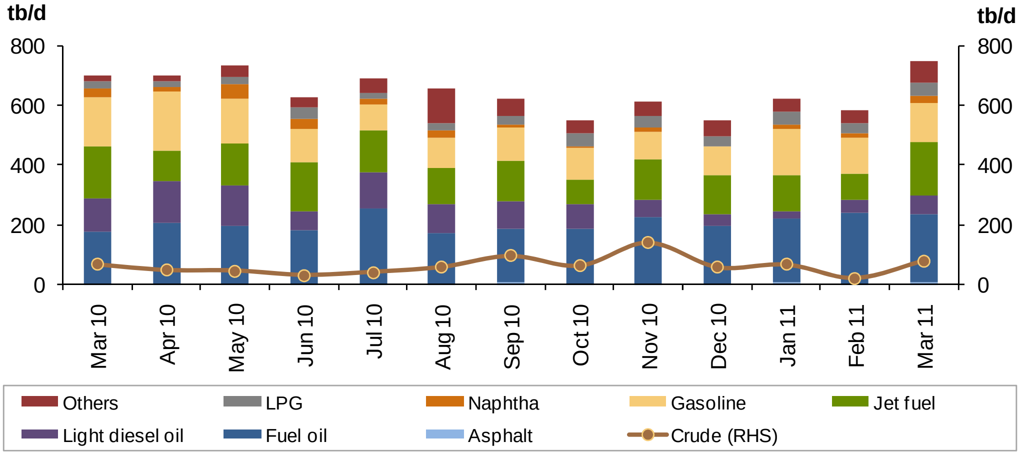
As the modest rise of 30 tb/d in products could not compensate for the decline of 100 tb/d in crude oil, China's total oil imports fell almost 70 tb/d in March to 6.32 mb/d, but remained 367 tb/d above the level of March 2010. Again China's oil imports were 16% higher in the first quarter 2011 compared with the same period of the previous year.

Graph 8.5: China's imports of crude and petroleum products



Lower planned refinery runs pushed crude oil exports to 80 tb/d in March while strong production from refiners in the previous months and high international prices boosted product exports to 0.75 mb/d, up 162 tb/d or 27.6% from the previous and 46 tb/d or 6.6% from March 2010.

Graph 8.6: China's exports of crude and petroleum products



Consequently, **Chinese net oil imports reversed the four-month upward trend and fell by 0.29 mb/d in March to 5.49 mb/d. However, despite this decline, China's net oil imports remained 0.31 mb/b above the level of March 2010 and due to the growth in the previous four months, China's net oil imports averaged 5.68 mb/d in the first quarter 2011 compared with 4.82 mb/d a year ago.**

Crude oil imports from Saudi Arabia fell a minor 1.5% in March to 1.03 mb/d, but the share of Saudi Arabia edged up slightly to 20% as the decline in imports from Saudi Arabia was lower than the decline in total imports of 1.9%. Angola was the second-largest supplier with 13.4% after Saudi Arabia and ahead of Iran which saw its share rise from 9.6% to 10.8%.

Table 8.3: China's crude and product net imports, tb/d

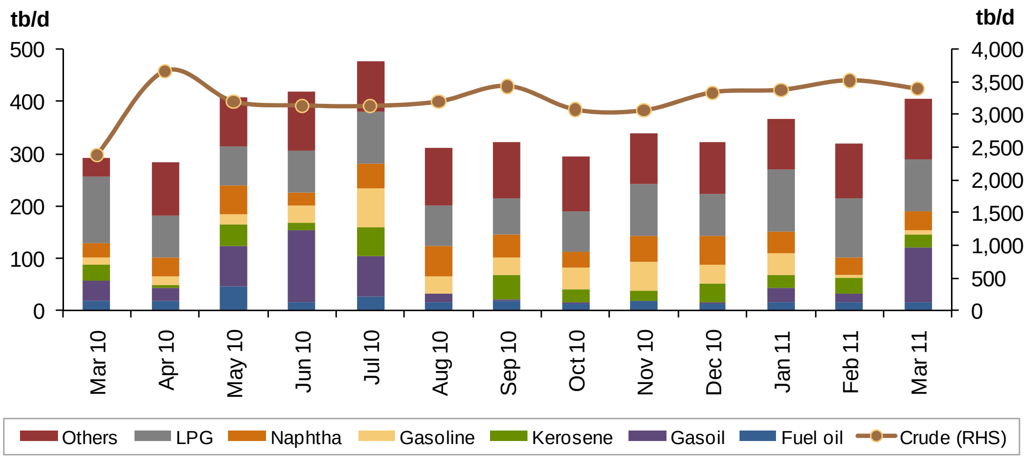
	Jan 11	Feb 11	Mar 11	Change Mar/Feb
Crude oil	5,088	5,202	5,045	-157
Total products	685	579	447	-132
Total crude and products	**5,773**	**5,781**	**5,492**	**-289**

India

In March, India's crude oil imports dropped back to the January level of 3.38 mb/d

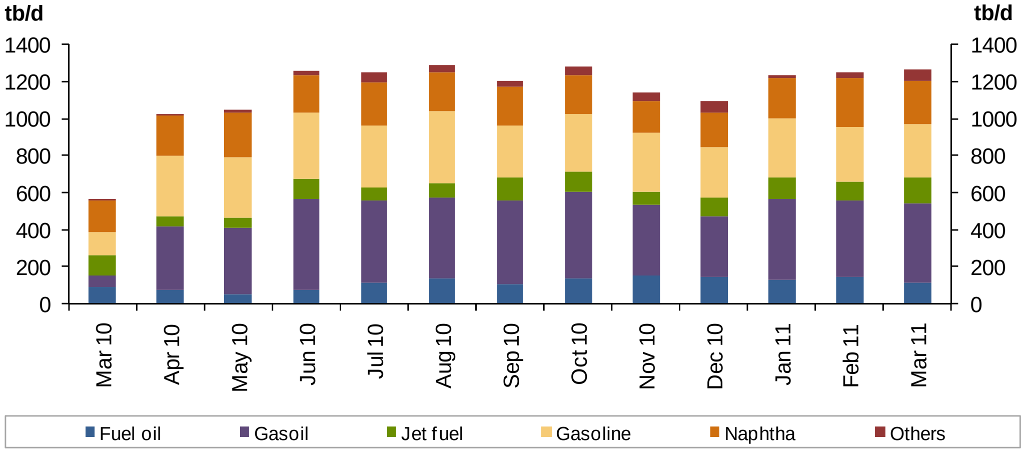
India crude oil imports fell 127 tb/d or 3.6% in March, offsetting the gain of the previous month, to average 3.88 mb/d. However, crude oil imports showed a y-o-y growth of almost 43%. India imported an average of 3.42 mb/d of crude oil in the first quarter, up 0.5 mb/d or 17.3% from a year earlier. This jump in crude oil imports over a year ago is attributed to higher throughput following the increase in refinery capacities.

Graph 8.7: India's imports of crude and petroleum products



Product imports followed the opposite trend and increased by 85 tb/d or 26.5% from the previous month to hit 0.40 mb/d, the highest since the 0.48 mb/d of last July. Transportation fuels – diesel and gasoline – were the main contributors to growth as elections in some regions boosted demand. In contrast, imports of LPG and kerosene declined. When compared with a year earlier, product imports display a jump of more than 38%. Similarly, India imported 19% more products in the first quarter 2011 compared with the same period of the previous year. The rise in imports reflects increasing domestic sales which showed a y-o-y growth of almost 5% in March, according to government data.

Graph 8.8: India's exports of petroleum products



On the export side, products edged up a minor 16 tb/d to nearly 1.27 mb/d, the highest since last October when exports stood at almost 1.28 mb/d.

As a result, India's net oil imports fell 59 tb/d or 2.3% to 2.52 mb/d.

Table 8.4: India's crude and product net imports, tb/d

	Jan 11	Feb 11	Mar 11	Change Mar/Feb
Crude oil	3,372	3,516	3,388	-127
Total products	-865	-931	-863	68
Total crude and products	**2,507**	**2,584**	**2,525**	**-59**

India data table does not include information for crude import and product export by Reliance Industries

FSU

FSU total oil exports rose 0.27 mb/d or 2.9% to 9.6 mb/d, the highest since last August

Total FSU crude oil exports rebounded from 6.52 mb/d in February to nearly 6.83/b, implying growth of 0.31 mb/d or 4.7%, as production increased. However, when compared with a year earlier, exports showed no growth.

The increase of March comes from exports through Transneft pipelines' system which rose by 0.33 mb/d or 8.4% to average 4.33 mb/d, the highest since mid-2006. Shipments from the Black Sea increased by 12% or 108 tb/d to move back to January's level of 1.0 mb/d. The recovery in exports from the Black sea was driven by increasing volumes from TNK-BP, Surgutneftegaz and Kazakh producers. Exports from the Baltic also increased following the end of the maintenance on pipelines to average 1.5 mb/d, up 136 tb/d or 9.7% from February. Similarly, exports through Druzhba increased to almost 1.2 mb/d, up 56 tb/d or 5% as refiners from Germany and Poland lifted their requirements for the month. Deliveries to China through the new pipeline which started in late 2010, recovered in March to move back to 0.31 mb/d, a level hit in January while shipment from the Kozmino terminal increased a further 21 tb/d or 7.2% to average around 0.31 mb/d, the highest so far this year.

Total exports thorough other routes remained almost stable in March. The majority of the routes saw exports decline except the BTC route and Russian rail. However, shipments through the Baku-Tbilisi-Ceyhan route rose a further 64 tb/d to move beyond 0.78 mb/d, the highest so far this year and, compared with a year earlier, exports were

100 tb/d higher in March 2011. Exports through Russian rail rose 40 tb/d, offsetting the drop of the previous month, to average 0.21 mb/d. On the downside, shipments lost the most, 50 tb/d or 26.4%, to hit 0.14 mb/d, the lowest since mid-2008. Deliveries through the CPC pipeline and the Russian-Far East route fell by some 35 tb/d each to 0.72 mb/d and 0.29 mb/d, respectively.

In contrast to crude oil, FSU product exports edged down 34 tb/d or 1.2% to 2.77 mb/d in March. Nevertheless, compared to a year earlier, exports were almost 35 tb/d higher in March 2011. Products saw a mixed pattern. Gasoline and naphtha gained around 30 tb/d each to average 0.23 mb/d and 0.91 mb/d, respectively. With the exception of jet fuel, which remained stable, all the remaining products saw exports fall. Fuel oil, the major exported products, dropped by 32 tb/d or 2.7% to 1.16 mb/d but were up by 52 tb/d or 4.7% from a year ago. Fuel oil exports of March were affected by severe weather conditions at ports on the Gulf of Finnland and deliveries through Ventspils remained low as the dispute between Litasco and the terminal operator remained. Exports of vacuum gasoil were the most affected and fell 16% to 0.18 mb/d, which was also lower than a year ago by 17.3%

FSU total oil exports increased a further 0.27 mb/d or 2.9% to nearly 9.6 mb/d, the highest since last August when exports stood slightly above 9.6 mb/d.

Table 8.5: Recent FSU exports of crude and products by source, tb/d

	2009	2010	3Q10	4Q10	1Q11	Feb 11	Mar 11*
Crude							
Russian pipeline							
Black Sea	1,201	994	1,038	933	970	894	1,002
Baltic	1,577	1,564	1,530	1,569	1,445	1,409	1,545
Druzhba	1,112	1,126	1,155	1,136	1,140	1,107	1,163
Kozmino	0	309	320	336	294	288	309
Total	**3,922**	**4,005**	**4,043**	**4,018**	**4,155**	**3,993**	**4,330**
Other routes							
Russian rail	280	330	331	280	197	170	210
Russian-Far East	283	276	204	313	299	328	293
Kazakh rail	18	1	6	0	0	0	0
Vadandey	155	152	150	127	111	113	102
Kaliningrad	0	24	24	24	23	21	22
CPC	736	743	755	749	737	755	718
BTC	805	775	812	796	710	718	782
Kenkiyak-Alashankou	157	204	205	204	230	237	231
Caspian	281	239	195	197	183	190	140
Total crude exports	**6,653**	**6,750**	**6,726**	**6,759**	**6,646**	**6,524**	**6,829**
Products							
Gasoline	221	152	127	124	205	200	230
Naphtha	269	275	289	245	285	305	280
Jet	47	20	23	15	7	10	11
Gasoil	948	878	822	824	896	881	907
Fuel oil	1,116	1,235	1,331	1,225	1,178	1,196	1,164
VGO	235	242	232	218	179	212	178
Total	**2,837**	**2,801**	**2,824**	**2,651**	**2,750**	**2,804**	**2,770**
Total oil exports	**9,490**	**9,551**	**9,550**	**9,410**	**9,396**	**9,328**	**9,598**

** Preliminary*
Totals may not add due to independent rounding

Source: Nefte Transport, Global Markets, Argus Fundamentals, Argus FSU and OPEC

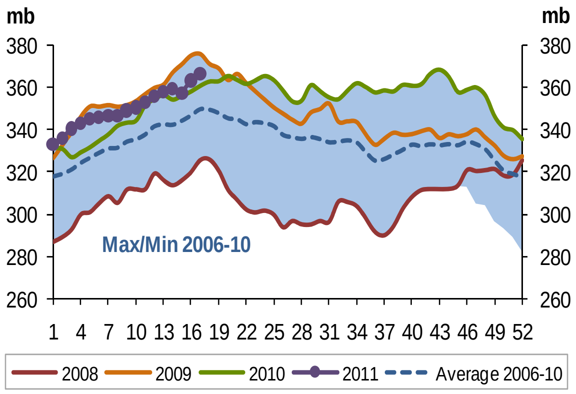
Stock Movements

US commercial stocks dropped in April, driven by products, as crude saw a build

US

At the end of April, total **US commercial oil stocks** continued the downward trend observed for the last three months and declined by 1.3 mb. It is worth noting that since February, US commercial stocks experienced a cumulative loss of almost 36 mb. The draw was mainly attributed to products as they fell by 10.1 mb, while crude oil moved in the opposite direction and rose by 8.9 mb. At 1041.1 mb, total US inventories stood at 36.7 mb or 3.4% below a year ago at the same period, while still indicating a surplus of 10 mb or 1.0 % compared to the last five-year average.

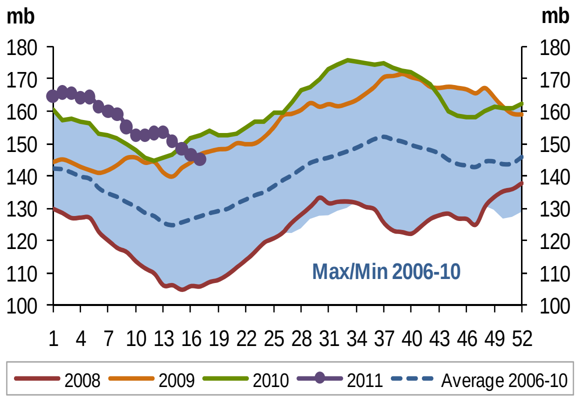
Graph 9.1: US weekly commercial crude oil inventories



US commercial crude inventories continued climbing in April, reaching the highest level in two years, accumulating a gain of almost 35 mb since the beginning of this year. At 366.5 mb, US commercial crude oil inventories showed a surplus of 5.9 mb or 1.6% with a year ago at the same time, while standing at 18.4 mb or 5.3% above the historical average. The build in crude oil stocks could be attributed to lower US crude oil refinery inputs as they declined by around 300,000 b/d from the previous month. At 14.1 mb/d, crude oil refinery inputs are also below a year ago indicating a decline of more than 1 mb/d. At the end of April, US refiners operated at 82.8%, 1.6 percentage points (pp) below the previous month, but almost 7 pp less than a year ago at the same time. Even with strong product spreads, refiners are hesitant to enter a market when crude oil prices are still high. The build in US commercial crude came despite a significant decline in crude oil imports averaging 8.7 mb/d, almost 800,000 b/d below the previous year over the same period and 200,000 b/d below a month ago. Adding to an overall bearish crude market, Cushing crude stocks at the end of April rose slightly and remain near an all-time high of 40.5 mb.

On the product side, **product stocks** continue to drop in April to end the month at 674.6 mb and drawing almost 60 mb since the beginning of this year. This stock draw has widened the deficit with a year ago to 5.9% from 1.8% a month earlier. Additionally, the surplus from the five-year average seen last month has been reversed to a deficit, standing at 8.6 mb or 1.3%. With the exception of residual fuel, all other products experienced a stock draw, with the bulk coming from gasoline followed by distillate stocks. Gasoline inventories have continued their downward trend since mid February, decreasing by 12.1 mb and ending the month at 204.5 mb. With this drop, gasoline inventories widened the deficit with a year ago to stand at 6.8% from only 3.3% a month earlier. The surplus with the historical average occurred last month was reversed to a deficit of 2.1%. On lower refinery runs, gasoline production remains down, contributing to the fall in gasoline stocks. At 8.8 mb/d, gasoline production was about 300,000 b/d less than last year at the same time. Higher gasoline demand also contributed to this draw as they increased by 160,000 b/d to average just above 9.0 mb/d. However, gasoline demand is almost 200,000 b/d less than a year ago over the same period, as drivers feel the pinch of higher retail prices. Distillate stocks also

Graph 9.2: US weekly distillate stocks



fell by 8.4 mb for the fourth consecutive month, ending the month at 145.1 mb. Despite this drop, US distillate stocks remained at 0.2% above a year ago at the same period and 17.2 mb or 13.4% above the seasonal average. The decline in US distillate stocks could be attributed to higher demand, increasing by 140,000 b/d to an average of 3.9 mb/d. However, high product prices and slowing economic growth continue to dampen distillate consumption. Higher exports, which are estimated at around 700,000 b/d also contributed to the decline in distillate stocks. In contrast, the increase in middle distillate production to 4.2 mb/d has limited the decline in middle distillate inventories. Looking forward, the return of refinery production might push up the distillates market, sending it to bearish territory. Residual fuel oil and jet fuel oil saw a mixed picture as residual fuel oil stocks rose by 1.7 mb, while jet fuel inventories declined by 1.1 mb. Residual fuel stocks ended April at 38.2 mb, but still represent a shortage with a year ago and the five-year average of 12.1% and 1.9%. At 39.8 mb, jet fuel oil stocks stood at 10.0% below last year at the same period, indicating a deficit of 4.6% with the seasonal norm.

Table 9.1: US onland commercial petroleum stocks, mb

	Feb 11	Mar 11	Apr 11	Change Apr 11/Mar 11	Apr 10
Crude oil	350.3	357.7	366.5	8.9	360.7
Gasoline	229.5	216.7	204.5	-12.1	219.5
Distillate fuel	153.8	153.5	145.1	-8.4	144.8
Residual fuel oil	35.0	36.5	38.2	1.7	43.5
Jet fuel	39.3	40.9	39.8	-1.1	44.2
Total	**1046.89**	**1042.36**	**1041.10**	**-1.26**	**1077.77**
SPR	726.5	726.5	726.5	0.0	726.6

** Latest available data at time of report's release*

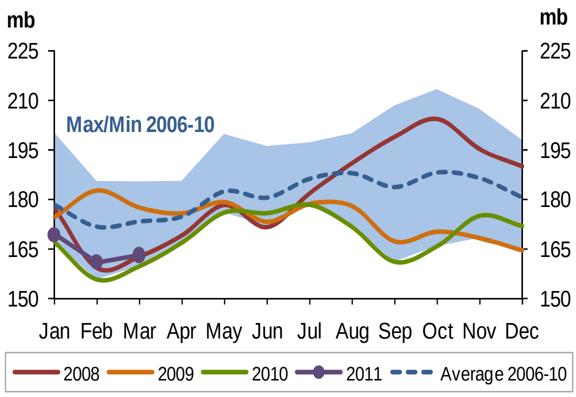
Source: US Department of Energy's Energy Information Administration

Japan

Japan commercial inventories rose in March, driven by a build in crude, while products saw a draw

In March, **commercial oil stocks** in Japan reversed the downward trend observed during the last three months, increasing by 2.0 mb to stand at 162.9 mb. With this build, Japanese oil inventories stood at 3.3 mb or 2.1% above a year ago, while the deficit with the five-year average narrowed slightly to 5.9%, from 6.2% a month earlier. The build in commercial oil stocks can be attributed to crude inventories, which increased by 5.9 mb, while product inventories limited the build, declining by 3.9 mb.

Graph 9.3: Japan's commercial oil stocks



Japanese crude oil stocks rose in March after two successive months of decline, to stand at 97.9 mb. With this build, they stood at 4.8 mb or 5.2% above a year ago, but remained 3.5 mb or 3.4% below the five-year average. The build came mainly from a huge decline in crude throughput, outpacing the fall in crude oil imports. The decline in Japanese crude runs was driven by the shut-in of three refineries. The Kashima refinery is expected to restart in June, while the other two refiners are projected to come on-stream only by the end of the next year. Indeed, refiners were operating at 76.1%, more than 13**%** below February levels, and 3.1**%** less than a year ago. This corresponds to Japanese crude runs of 3.37 mb/d, representing a drop of 16.4% below a month ago and 11.3% less than a year ago. Total crude oil imports fell in March by 2.6% to average 3.78 mb/d, around 6.3% below a year ago. However, it should be noted that the imports of direct crude-burning for power generation almost tripled from a year earlier to stand at 125,000 b/d, after the quake and tsunami shut many nuclear and thermal power plants, especially in the Northeast of Japan. Looking ahead, the decline in crude oil imports will likely widen in April from March, as the full impact of the quake and tsunami becomes evident.

In contrast to the build in crude oil, **total products** fell to 65.0 mb, the lowest level in more than five years. With the stock-draw, product inventories stood at 1.5 mb or 2.2% below a year ago in the same period, while the deficit with the five-year average widened to 6.7% from 4.9% a month earlier. The main reason behind the decline in total product inventories was the massive decrease in production, outpacing the decline in oil product sales. In fact, Japan's oil product sales in March fell to 3.4 mb/d, down 2.6% from a month earlier and 6.3% from the same time the year before. The economy in Japan is expected to contract in the current quarter, but it is projected to grow again in the second half, following reconstruction efforts. The government is expected to pass an extra budget of an initial four trillion yen for disaster relief in early May. All products saw a drop, with the exception of residual fuel, which increased by 1.0 mb. Gasoline stocks fell 1.6 mb to 12.7 mb, remaining 3.8% below a year ago and 1.9% below the last five-year average. This drop came despite the fall in gasoline sales, which declined by 1.6% from a month earlier and 4.5% from a year ago. The events in Japan have disrupted refinery operations, resulting in lower gasoline output, which declined by 9.8%.

Distillate inventories also fell by 2.7 mb, ending the month at 25.08 mb, the lowest level since April 2010. With this draw, distillate stocks remained at 3.6% below the five-year average and 2.5% below the same period a year ago. Within distillate components, all products experienced a decline, with kerosene falling the most by 9%, while gasoil and jet fuel inventories dropped by 2.4% and 1.9% respectively. The drop in kerosene could be attributed to the massive decline of more than half in kerosene imports, combined with the decrease in kerosene production of 30.6%. The fall in jet fuel stocks came mainly on the back of higher domestic sales, which more than doubled, as jet fuel production experienced a rise of almost 24%. Gasoil stocks also dropped, driven by lower imports, which declined by 9.5%, combined with a slight increase of 1.5% in domestic sales. Residual fuel oil stocks saw a build, to end the month at 15.37 mb, leaving them 2.1% below the historical norm and 4.1% lower than the same time a year ago. The build in residual fuel oil was driven by the increase in fuel oil B.C, as fuel oil A experienced a drop. The build in fuel oil B.C could be attributed to lower domestic sales, which declined by 1.8%, combined with an increase in imports of 1.9%. The decline in fuel oil A came on the back of a 12.5% decline in production. Naphtha stocks saw a slight drop, ending the month at 11.86 mb, the lowest level in two months. At this level, they remained at 0.6 mb or 5.4% above a year ago.

Table 9.2: Japan's commercial oil stocks*, mb

	Jan 11	Feb 11	Mar 11	Change Mar 11/Feb 11	Mar 10
Crude oil	98.5	92.0	97.9	5.9	93.1
Gasoline	14.4	14.3	12.7	-1.6	13.2
Naphtha	12.3	12.5	11.9	-0.6	11.3
Middle distillates	29.6	27.8	25.1	-2.7	26.0
Residual fuel oil	14.3	14.4	15.4	1.0	16.0
Total products	70.8	68.9	65.0	-3.9	66.5
Total**	**169.2**	**160.9**	**162.9**	**2.0**	**159.6**

* *At end of month*
** *Includes crude oil and main products only*
Source: METI, Japan

Singapore and Amsterdam-Rotterdam-Antwerp (ARA)

Singapore product stocks in March rose further for a second consecutive month

At the end of March, **product stocks** held in **Singapore** rose for the second consecutive month, by around 1.0 mb, to end the month at 44.13 mb, the highest level since November 2010. Despite this build, product stocks remained at 4.6 mb or 9.4% below last year. Within products, the picture was mixed, as middle distillates and fuel oil inventories declined by 1.1 mb and 0.14 mb respectively, while light distillate stocks rose by 2.2 mb. At 12.05 mb, light distillate stocks stood at the highest level for almost one year, but still slightly below a year ago. The build in light distillate stocks could be attributed to higher gasoline imports. India, China and Saudi Arabia were seen exporting at higher levels, boosting inventories in Singapore.

Looking ahead, light distillate stocks could reverse this upward trend, as more exports are expected to be delivered to Indonesia, following the fire in storage tanks in its 380,000 b/d Cilacap refinery. Middle distillate stocks dropped to end the month at

13.20 mb, indicating a surplus of 0.6 mb or 4.7% above a year earlier. Higher exports to the US, resulting from a slight open arbitrage, could contribute to draws on distillate stocks. Middle distillate inventories are expected to see some change in the coming month, as Japan is unlikely to export products, following the shut-in of around 13.5% of its total 4.62 mb/d refinery capacity. Fuel oil stocks fell marginally to end the month at 18.9 mb, and stand at 4.6 mb or 9.9% below a year ago. In late-March, stronger bunker demand offset the bulk of arbitrage inflows from the west, keeping inventories almost unchanged. Going forward, heavier arbitrage inflows from outside the region are likely to continue, at least in the first half of April, leading to more fuel stock-building.

Product stocks in ARA rose in March, reversing the stock draw seen last month

Product stocks in ARA in March reversed the stock-draw observed last month and increased by 2.54 mb, to end the month at 39.27 mb, the highest level in a year. With this build, product stocks in ARA stood at 1.9 mb or 5.1% above a year ago. The bulk of this build came from fuel oil stocks, which increased by 2.7 mb, followed by a slight increase of 0.3 mb in naphtha, while jet fuel saw a drop of 0.4 mb. Gasoline and gasoil inventories experienced a marginal drop of less than 0.1 mb. Fuel oil stocks climbed in March to a six-month high, after dropping the previous month. At 6.1 mb, fuel oil stocks stood at 0.3 mb or 5% below a year ago. The build in fuel oil stocks could be attributed to a robust increase in imports, especially from Brazil, France and Russia. Lower seasonal demand in the US and Europe also helped boost fuel oil inventories. Gasoil stocks saw a marginal drop, ending the month at 19.5 mb, but remained at comfortable levels, showing a surplus of 3.1 mb or 19.1%. Gasoil inventories were little changed, as imports from Norway and the US offset total exports to the ARA region. Gasoline also saw a minor drop, ending the month at 7.34 mb and showing a deficit of 9.9% from a year ago. This marginal drop came on the back of the transition to the summer specification for gasoline, from winter. Jet fuel stocks declined by 0.4 mb to stand at 5.7 mb, staying 2.8% below the same period a year earlier. This stock-draw came as imports from India and the United Arab Emirates were outpaced by outflows to the aviation sector and to the Central European pipeline system.

Balance of Supply and Demand

Estimate for 2010

Required OPEC crude for 2010 estimated at 29.5 mb/d, 0.4 mb/d higher than the previous year

Demand for OPEC crude for 2010 remains unchanged from the previous assessment to average 29.5 mb/d. However, within the quarters, the third quarter saw a downward adjustment of 200 tb/d, while the remaining quarters experienced an upward revision of about 80 tb/d. Demand for OPEC crude is estimated to have increased by 0.4 mb/d over the previous year. The first quarter showed a drop of 0.7 mb/d compared to a year ago, while the second quarter is estimated to see slight growth of 0.4 mb/d. The third quarter is expected to see positive growth of 1.5 mb/d, followed by 0.4 mb/d in the fourth.

Table 10.1: Summarized supply/demand balance for 2010, mb/d

	2009	1Q10	2Q10	3Q10	4Q10	2010
(a) World oil demand	**84.57**	**85.28**	**85.55**	**87.79**	**88.02**	**86.67**
Non-OPEC supply	51.14	52.12	52.11	51.93	52.87	52.26
OPEC NGLs and non-conventionals	4.35	4.66	4.81	5.15	5.00	4.90
(b) Total supply excluding OPEC crude	**55.49**	**56.77**	**56.91**	**57.08**	**57.86**	**57.16**
Difference (a-b)	**29.08**	**28.51**	**28.64**	**30.71**	**30.16**	**29.51**
OPEC crude oil production	28.71	29.19	29.11	29.29	29.32	29.23
Balance	-0.37	0.68	0.47	-1.42	-0.84	-0.28

Totals may not add due to independent rounding

Forecast for 2011

Demand for OPEC crude in 2011 forecast at 29.9 mb/d, 0.4 mb/d more than the previous year

This year, demand for OPEC crude is projected to average 29.9 mb/d, unchanged from the previous report. Within the quarters, the first quarter saw an upward revision of 190 tb/d, while the third quarter was revised down by about 120 tb/d. The second and the third quarters remained almost unchanged from the previous assessment. Required OPEC crude is forecast to increase by 0.4 mb/d over the previous year. The first quarter is estimated to have seen the bulk of the increase, by 0.8 mb/d compared to the same period last year, while the second and third quarters are forecast to see lower growth of 0.2 mb/d. The fourth quarter is expected to see growth of 0.5 mb/d compared to a year ago.

Table 10.2: Summarized supply/demand balance for 2011, mb/d

	2010	1Q11	2Q11	3Q11	4Q11	2011
(a) World oil demand	**86.67**	**87.29**	**86.80**	**88.96**	**89.24**	**88.08**
Non-OPEC supply	52.26	52.87	52.69	52.71	53.35	52.91
OPEC NGLs and non-conventionals	4.90	5.11	5.28	5.39	5.44	5.31
(b) Total supply excluding OPEC crude	**57.16**	**57.99**	**57.97**	**58.10**	**58.79**	**58.21**
Difference (a-b)	**29.51**	**29.30**	**28.83**	**30.87**	**30.45**	**29.87**
OPEC crude oil production	29.23	29.64				
Balance	-0.28	0.33				

Totals may not add due to independent rounding

Graph 10.1: Balance of supply and demand

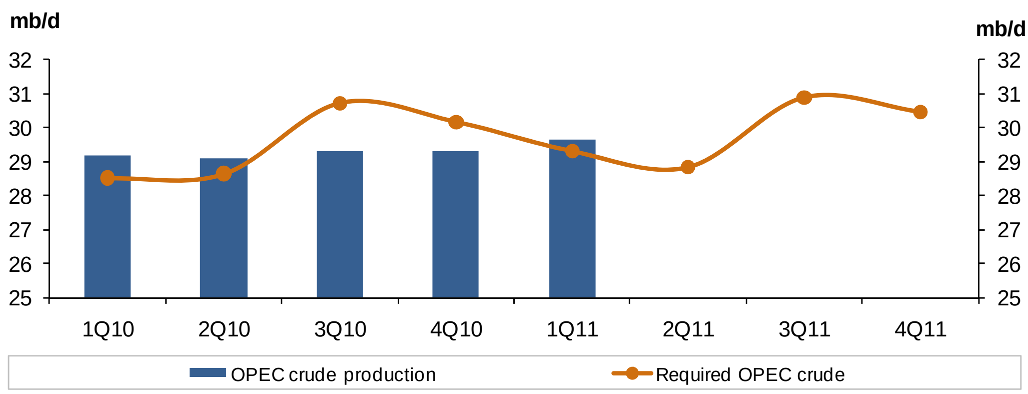


Table 10.3: World oil demand/supply balance, mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	49.9	49.6	49.3	47.6	45.5	45.8	45.2	46.6	46.7	46.1	46.4	45.3	46.6	46.9	46.3
North America	25.6	25.4	25.5	24.2	23.3	23.5	23.8	24.2	24.0	23.9	23.8	23.9	24.4	24.3	24.1
Western Europe	15.7	15.7	15.5	15.3	14.5	14.2	14.1	14.8	14.7	14.5	14.3	14.1	14.7	14.6	14.4
Pacific	8.6	8.5	8.4	8.0	7.7	8.2	7.3	7.6	8.0	7.8	8.2	7.2	7.5	8.0	7.7
DCs	22.8	23.6	24.7	25.5	26.1	26.4	26.8	27.0	27.1	26.8	27.0	27.4	27.6	27.7	27.4
FSU	3.9	4.0	4.0	4.1	4.0	4.0	3.8	4.3	4.4	4.1	4.1	3.9	4.4	4.4	4.2
Other Europe	0.8	0.9	0.8	0.8	0.7	0.7	0.6	0.7	0.8	0.7	0.7	0.6	0.7	0.7	0.7
China	6.7	7.2	7.6	8.0	8.3	8.4	9.1	9.2	9.1	9.0	9.1	9.6	9.7	9.6	9.5
(a) Total world demand	84.1	85.2	86.5	85.9	84.6	85.3	85.5	87.8	88.0	86.7	87.3	86.8	89.0	89.2	88.1
Non-OPEC supply															
OECD	20.4	20.1	20.0	19.5	19.7	20.0	19.9	19.5	20.3	19.9	20.2	19.9	19.7	20.0	19.9
North America	14.1	14.2	14.3	13.9	14.4	14.7	14.9	14.9	15.3	15.0	15.3	15.1	15.1	15.3	15.2
Western Europe	5.7	5.3	5.2	4.9	4.7	4.7	4.4	4.0	4.4	4.4	4.3	4.1	4.0	4.2	4.2
Pacific	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5	0.6	0.6	0.6	0.6
DCs	11.9	11.9	11.9	12.2	12.5	12.7	12.7	12.8	12.8	12.7	12.9	13.0	13.2	13.4	13.1
FSU	11.5	12.0	12.5	12.6	13.0	13.2	13.2	13.2	13.3	13.2	13.4	13.4	13.4	13.5	13.4
Other Europe	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
China	3.6	3.7	3.8	3.8	3.9	4.0	4.1	4.2	4.2	4.1	4.2	4.2	4.2	4.2	4.2
Processing gains	1.9	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Total non-OPEC supply	49.6	49.9	50.4	50.3	51.1	52.1	52.1	51.9	52.9	52.3	52.9	52.7	52.7	53.3	52.9
OPEC NGLs + non-conventional oils	3.9	3.9	3.9	4.1	4.3	4.7	4.8	5.2	5.0	4.9	5.1	5.3	5.4	5.4	5.3
(b) Total non-OPEC supply and OPEC NGLs	53.4	53.8	54.4	54.4	55.5	56.8	56.9	57.1	57.9	57.2	58.0	58.0	58.1	58.8	58.2
OPEC crude oil production (secondary sources)	30.7	30.5	30.2	31.2	28.7	29.2	29.1	29.3	29.3	29.2	29.6				
Total supply	84.1	84.3	84.5	85.6	84.2	86.0	86.0	86.4	87.2	86.4	87.6				
Balance (stock change and miscellaneous)	0.0	-0.9	-1.9	-0.3	-0.4	0.7	0.5	-1.4	-0.8	-0.3	0.3				
OECD closing stock levels (mb)															
Commercial	2587	2668	2573	2698	2664	2681	2772	2745	2664	2664					
SPR	1487	1499	1524	1527	1564	1567	1562	1549	1561	1561					
Total	4073	4167	4097	4225	4228	4248	4333	4294	4224	4224					
Oil-on-water	954	919	948	969	919	894	897	926	871	871					
Days of forward consumption in OECD															
Commercial onland stocks	52	54	54	59	58	59	59	59	57	58					
SPR	30	30	32	34	34	35	33	33	34	34					
Total	82	84	86	93	92	94	93	92	91	91					
Memo items															
FSU net exports	7.7	8.0	8.5	8.5	9.0	9.2	9.4	8.9	9.0	9.1	9.3	9.5	9.0	9.0	9.2
(a) - (b)	30.7	31.5	32.1	31.5	29.1	28.5	28.6	30.7	30.2	29.5	29.3	28.8	30.9	30.5	29.9

Note: Totals may not add up due to independent rounding

Table 10.4: World oil demand/supply balance: changes from last month's table* , mb/d

	2005	2006	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11	2011
World demand															
OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-
DCs	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1	-	0.1	0.1	0.1	0.1
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	0.2	-	-	-	-
(a) Total world demand	-	-	-	-	-	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
World demand growth	*-0.10*	*-*	*-*	*-0.02*	*0.04*	*0.08*	*0.10*	*0.11*	*0.11*	*0.10*	*0.10*	*0.01*	*0.02*	*-0.05*	*0.02*
Non-OPEC supply															
OECD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Western Europe	-	-	-	-	-	-	-	-	-	-	-0.1	-	-	-	-
Pacific	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
DCs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FSU	-	-	-	-	-	-	-	-	-	-	-	-	-	0.1	-
Other Europe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Processing gains	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total non-OPEC supply	-	-	-	-	-	-	-	-	-	-	-	-	0.1	0.1	0.1
Total non-OPEC supply growth	*-0.03*	*-*	*0.03*	*-0.03*	*0.06*	*-*	*-0.01*	*-0.02*	*-0.02*	*-0.01*	*-*	*0.03*	*0.11*	*0.13*	*0.07*
OPEC NGLs + non-conventionals	-	-	-	-	-	0.1	-	0.3	-	0.1	-	0.1	0.1	0.1	0.1
(b) Total non-OPEC supply and OPEC NGLs	-	-	-	-	-	-	-	0.3	-	0.1	-	0.1	0.2	0.2	0.1
OPEC crude oil production (secondary sources)	-	-	-	-	-	-	-	0.1	-	-	-0.1				
Total supply	-	-	-	-	-	-	0.1	0.4	0.1	0.2	-0.1				
Balance (stock change and miscellaneous)	-	-	-	-	-	-0.1	-	0.3	-	-	-0.3				
OECD closing stock levels (*mb*)															
Commercial	-	-	-	1	-	1	1	4	1	1					
SPR	-	-	-	-	-	-	-2	-	-	-					
Total	-	-	-	1	-	1	-	4	1	1					
Oil-on-water	-	-	-	-	-	-	-	-	-	-					
Days of forward consumption in OECD															
Commercial onland stocks	-	-	-	-	-	-	-	-	-	-					
SPR	-	-	-	-	-	-	-	-	-	-					
Total	-	-	-	-	-	-	-	-	-	-					
Memo items															
FSU net exports	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(a) - (b)	-	-	-	-	-	0.1	0.1	-0.2	0.1	-	0.2	-	-	-0.1	-

** This compares Table 10.3 in this issue of the MOMR with Table 10.3 in the April 2011 issue*
This table shows only where changes have occurred

Table 10.5: OECD oil stocks and oil on water at the end of perioc

	2003	2004	2005	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Closing stock levels *mb*																						
OECD onland commercial	2,511	2,538	2,587	2,668	2,573	2,698	2,601	2,661	2,646	2,573	2,572	2,603	2,664	2,698	2,754	2,766	2,780	2,664	2,681	2,772	2,745	2,664
North America	1,161	1,193	1,257	1,277	1,229	1,301	1,238	1,294	1,285	1,229	1,216	1,240	1,282	1,301	1,355	1,388	1,390	1,309	1,322	1,386	1,397	1,325
Western Europe	915	915	935	963	937	991	943	940	929	937	961	954	952	991	991	976	971	972	974	981	946	947
OECD Pacific	435	430	394	429	407	407	420	428	432	407	394	409	431	407	408	401	419	383	386	405	403	392
OECD SPR	1,411	1,450	1,487	1,499	1,524	1,527	1,507	1,506	1,520	1,524	1,529	1,526	1,522	1,527	1,547	1,561	1,564	1,564	1,567	1,562	1,549	1,561
North America	640	678	687	691	699	704	691	692	695	699	702	708	704	704	715	726	727	729	729	729	728	729
Western Europe	374	377	407	412	421	416	415	413	423	421	423	414	414	416	424	427	429	426	429	422	419	423
OECD Pacific	396	396	393	396	404	406	401	401	403	404	404	404	403	406	408	408	408	409	409	411	402	410
OECD total	3,922	3,988	4,073	4,167	4,097	4,225	4,108	4,168	4,166	4,097	4,101	4,129	4,187	4,225	4,301	4,327	4,344	4,228	4,248	4,333	4,294	4,224
Oil-on-water	882	905	954	919	948	969	916	891	917	948	935	925	885	969	899	899	869	919	894	897	926	871
Days of forward consumption in OECD																						
OECD onland commercial	51	51	52	54	54	59	54	54	53	53	54	56	56	58	62	61	60	58	59	59	59	58
North America	46	47	49	50	51	56	49	51	50	50	50	53	54	56	59	60	59	56	56	57	58	55
Western Europe	59	58	60	62	61	68	62	60	59	61	64	61	62	66	69	67	67	69	69	66	64	66
OECD Pacific	51	50	47	51	51	53	53	54	49	46	50	54	54	50	56	55	52	47	53	53	50	50
OECD SPR	28	29	30	30	32	34	31	31	30	31	32	33	32	33	35	35	34	34	35	33	33	34
North America	25	26	27	27	29	30	27	27	27	28	29	30	29	30	31	31	31	31	31	30	30	31
Western Europe	24	24	26	27	27	29	27	26	27	27	28	27	27	28	30	29	30	30	30	29	29	29
OECD Pacific	46	46	46	47	50	53	51	51	46	45	52	54	51	50	56	56	51	50	56	54	50	53
OECD total	79	80	82	84	86	93	85	85	83	84	87	89	89	91	97	96	94	92	94	93	92	92

n.a. not available

Table 10.6: Non-OPEC supply and OPEC natural gas liquids, mb/d

	2005	2006	2007	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	2Q11	3Q11	4Q11	2011	Change 11/10
USA	7.34	7.36	7.47	7.50	0.03	7.84	8.08	8.29	8.36	8.14	0.64	8.44	8.52	8.60	8.84	8.60	0.46	8.75	8.72	8.67	8.74	8.72	0.12
Canada	3.03	3.20	3.31	3.27	-0.04	3.33	3.14	3.24	3.28	3.25	-0.02	3.28	3.37	3.38	3.54	3.39	0.15	3.57	3.49	3.51	3.60	3.55	0.15
Mexico	3.77	3.69	3.49	3.17	-0.31	3.04	2.97	2.94	2.96	2.98	-0.19	2.99	2.97	2.95	2.93	2.96	-0.02	2.97	2.94	2.90	2.92	2.93	-0.03
North America	14.14	14.24	14.26	13.94	-0.33	14.22	14.19	14.47	14.60	14.37	0.43	14.72	14.86	14.92	15.31	14.96	0.59	15.30	15.15	15.08	15.27	15.20	0.24
Norway	2.97	2.78	2.56	2.47	-0.09	2.53	2.21	2.29	2.39	2.36	-0.11	2.33	2.12	1.93	2.17	2.13	-0.22	2.13	1.95	1.93	2.03	2.01	-0.13
UK	1.89	1.71	1.69	1.57	-0.12	1.63	1.57	1.27	1.46	1.48	-0.09	1.51	1.40	1.20	1.35	1.37	-0.11	1.35	1.30	1.28	1.31	1.31	-0.06
Denmark	0.38	0.34	0.31	0.28	-0.03	0.28	0.27	0.27	0.24	0.26	-0.02	0.25	0.25	0.23	0.26	0.25	-0.02	0.23	0.23	0.21	0.22	0.22	-0.02
Other Western Europe	0.49	0.51	0.62	0.62	0.00	0.62	0.62	0.64	0.63	0.63	0.01	0.62	0.64	0.65	0.63	0.64	0.01	0.62	0.64	0.63	0.63	0.63	-0.01
Western Europe	5.72	5.34	5.17	4.94	-0.23	5.07	4.67	4.47	4.72	4.73	-0.21	4.71	4.41	4.02	4.41	4.39	-0.34	4.34	4.11	4.04	4.19	4.17	-0.22
Australia	0.53	0.51	0.53	0.53	0.01	0.55	0.53	0.55	0.53	0.54	0.01	0.52	0.50	0.50	0.48	0.50	-0.04	0.43	0.50	0.51	0.50	0.49	-0.01
Other Pacific	0.05	0.05	0.08	0.10	0.02	0.09	0.09	0.10	0.10	0.10	0.00	0.10	0.10	0.10	0.09	0.10	0.00	0.10	0.09	0.09	0.08	0.09	-0.01
OECD Pacific	0.58	0.56	0.60	0.63	0.03	0.64	0.62	0.65	0.63	0.64	0.01	0.62	0.60	0.60	0.57	0.60	-0.04	0.53	0.60	0.60	0.58	0.58	-0.02
Total OECD	20.44	20.14	20.04	19.51	-0.53	19.92	19.48	19.59	19.95	19.73	0.23	20.05	19.87	19.54	20.30	19.94	0.21	20.16	19.85	19.72	20.04	19.94	0.00
Brunei	0.21	0.22	0.19	0.17	-0.01	0.17	0.15	0.16	0.19	0.17	0.00	0.18	0.16	0.17	0.18	0.17	0.01	0.18	0.18	0.17	0.17	0.18	0.00
India	0.76	0.78	0.80	0.80	0.00	0.78	0.78	0.79	0.80	0.79	-0.01	0.82	0.83	0.87	0.90	0.85	0.07	0.91	0.89	0.92	0.93	0.91	0.06
Indonesia	1.12	1.07	1.02	1.05	0.02	1.03	1.02	1.02	1.03	1.03	-0.02	1.03	1.05	1.03	1.01	1.03	0.00	0.99	0.99	0.98	0.97	0.99	-0.04
Malaysia	0.77	0.76	0.76	0.76	0.00	0.74	0.72	0.73	0.71	0.73	-0.03	0.72	0.70	0.69	0.70	0.70	-0.02	0.67	0.67	0.66	0.66	0.67	-0.04
Thailand	0.29	0.32	0.33	0.36	0.02	0.37	0.37	0.36	0.37	0.37	0.01	0.35	0.35	0.36	0.33	0.35	-0.02	0.34	0.34	0.34	0.34	0.34	-0.01
Vietnam	0.39	0.37	0.35	0.33	-0.01	0.40	0.39	0.37	0.33	0.37	0.04	0.35	0.35	0.36	0.37	0.36	-0.02	0.35	0.35	0.38	0.40	0.37	0.01
Asia others	0.26	0.26	0.26	0.26	0.00	0.25	0.26	0.25	0.25	0.25	-0.01	0.22	0.24	0.24	0.23	0.23	-0.02	0.23	0.25	0.25	0.26	0.25	0.01
Other Asia	3.79	3.78	3.70	3.73	0.02	3.74	3.70	3.68	3.69	3.70	-0.03	3.67	3.67	3.72	3.71	3.69	-0.01	3.68	3.67	3.71	3.73	3.70	0.00
Argentina	0.78	0.77	0.77	0.78	0.01	0.78	0.77	0.74	0.76	0.76	-0.02	0.76	0.76	0.76	0.71	0.75	-0.01	0.76	0.73	0.73	0.73	0.74	-0.01
Brazil	1.98	2.11	2.22	2.38	0.16	2.47	2.49	2.51	2.55	2.51	0.12	2.61	2.67	2.65	2.70	2.66	0.15	2.72	2.84	2.87	2.96	2.85	0.19
Colombia	0.53	0.54	0.54	0.60	0.06	0.65	0.67	0.68	0.73	0.68	0.09	0.77	0.79	0.80	0.83	0.80	0.11	0.87	0.89	0.92	0.94	0.91	0.11
Trinidad & Tobago	0.18	0.18	0.16	0.16	-0.01	0.15	0.15	0.15	0.15	0.15	0.00	0.15	0.15	0.15	0.13	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01
L. America others	0.30	0.26	0.28	0.28	0.01	0.31	0.29	0.31	0.30	0.30	0.02	0.31	0.31	0.32	0.32	0.32	0.01	0.31	0.32	0.33	0.34	0.33	0.01
Latin America	3.77	3.87	3.97	4.20	0.23	4.36	4.38	4.39	4.50	4.40	0.20	4.61	4.68	4.68	4.69	4.66	0.26	4.80	4.92	4.98	5.11	4.95	0.29
Bahrain	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.21	0.21	0.21	0.21	0.21	0.00	0.22	0.22	0.22	0.22	0.22	0.01
Oman	0.78	0.75	0.71	0.76	0.05	0.79	0.80	0.83	0.83	0.81	0.06	0.86	0.86	0.87	0.88	0.87	0.05	0.89	0.91	0.93	0.94	0.92	0.05
Syria	0.45	0.44	0.42	0.41	0.00	0.41	0.41	0.41	0.41	0.41	0.00	0.42	0.43	0.42	0.42	0.42	0.01	0.40	0.40	0.39	0.39	0.40	-0.03
Yemen	0.41	0.37	0.33	0.30	-0.03	0.31	0.31	0.31	0.31	0.31	0.01	0.31	0.29	0.29	0.28	0.29	-0.02	0.27	0.26	0.26	0.26	0.26	-0.03
Middle East	1.85	1.76	1.66	1.68	0.02	1.71	1.73	1.76	1.76	1.74	0.06	1.79	1.78	1.78	1.79	1.78	0.04	1.78	1.78	1.80	1.81	1.79	0.01
Chad	0.18	0.15	0.15	0.15	0.00	0.14	0.14	0.14	0.14	0.14	-0.01	0.15	0.15	0.15	0.15	0.15	0.01	0.14	0.14	0.14	0.14	0.14	0.00
Congo	0.24	0.25	0.24	0.26	0.02	0.27	0.27	0.27	0.29	0.27	0.02	0.30	0.30	0.30	0.30	0.30	0.02	0.29	0.31	0.31	0.32	0.31	0.01
Egypt	0.70	0.66	0.66	0.69	0.04	0.72	0.72	0.69	0.71	0.71	0.01	0.71	0.72	0.73	0.73	0.72	0.01	0.72	0.73	0.72	0.71	0.72	0.00
Equatorial Guinea	0.36	0.37	0.37	0.38	0.01	0.37	0.36	0.35	0.34	0.36	-0.02	0.33	0.33	0.32	0.31	0.32	-0.03	0.31	0.31	0.30	0.30	0.30	-0.02
Gabon	0.25	0.25	0.25	0.24	-0.01	0.23	0.23	0.24	0.25	0.24	0.00	0.25	0.23	0.25	0.25	0.25	0.01	0.26	0.25	0.26	0.26	0.26	0.01
South Africa	0.19	0.19	0.18	0.18	0.00	0.18	0.18	0.17	0.16	0.17	-0.01	0.18	0.18	0.18	0.18	0.18	0.01	0.18	0.18	0.18	0.18	0.18	0.00
Sudan	0.29	0.36	0.48	0.46	-0.03	0.44	0.49	0.49	0.48	0.48	0.02	0.46	0.46	0.47	0.46	0.46	-0.01	0.46	0.44	0.45	0.44	0.45	-0.01
Africa other	0.23	0.29	0.28	0.27	-0.01	0.26	0.26	0.25	0.25	0.25	-0.01	0.24	0.23	0.23	0.22	0.23	-0.02	0.27	0.29	0.34	0.39	0.32	0.09
Africa	2.45	2.51	2.60	2.62	0.02	2.61	2.63	2.61	2.61	2.61	-0.01	2.61	2.59	2.62	2.59	2.60	-0.01	2.64	2.65	2.70	2.74	2.68	0.08
Total DCs	11.86	11.92	11.94	12.23	0.29	12.41	12.43	12.43	12.55	12.46	0.23	12.67	12.73	12.79	12.79	12.74	0.29	12.90	13.01	13.19	13.38	13.12	0.38
FSU	11.55	12.02	12.53	12.60	0.06	12.67	12.93	13.05	13.16	12.96	0.36	13.16	13.20	13.21	13.33	13.22	0.27	13.38	13.40	13.36	13.45	13.40	0.18
Russia	9.44	9.65	9.87	9.78	-0.08	9.78	9.87	9.97	10.07	9.92	0.14	10.09	10.12	10.13	10.22	10.14	0.22	10.21	10.20	10.16	10.18	10.19	0.05
Kazakhstan	1.23	1.30	1.35	1.41	0.06	1.48	1.51	1.54	1.61	1.54	0.12	1.61	1.56	1.57	1.65	1.60	0.06	1.66	1.65	1.65	1.71	1.67	0.07
Azerbaijan	0.44	0.65	0.87	0.94	0.07	0.97	1.11	1.09	1.06	1.06	0.12	1.05	1.10	1.10	1.03	1.07	0.01	1.07	1.12	1.12	1.14	1.11	0.04
FSU others	0.44	0.42	0.44	0.46	0.01	0.45	0.44	0.44	0.42	0.44	-0.02	0.42	0.42	0.41	0.42	0.42	-0.02	0.44	0.43	0.43	0.43	0.43	0.02
Other Europe	0.16	0.15	0.15	0.15	-0.01	0.14	0.13	0.14	0.14	0.14	-0.01	0.14	0.14	0.14	0.13	0.14	0.00	0.14	0.14	0.14	0.14	0.14	0.00
China	3.64	3.69	3.77	3.84	0.07	3.79	3.86	3.89	3.87	3.85	0.01	4.03	4.10	4.18	4.25	4.14	0.29	4.22	4.21	4.22	4.25	4.23	0.09
Non-OPEC production	47.64	47.93	48.43	48.31	-0.12	48.94	48.83	49.10	49.66	49.14	0.82	50.04	50.03	49.85	50.79	50.18	1.04	50.80	50.61	50.63	51.27	50.83	0.65
Processing gains	1.91	1.96	1.99	1.97	-0.02	2.00	2.00	2.00	2.00	2.00	0.03	2.08	2.08	2.08	2.08	2.08	0.08	2.08	2.08	2.08	2.08	2.08	0.00
Non-OPEC supply	49.55	49.89	50.42	50.28	-0.14	50.94	50.83	51.10	51.66	51.14	0.85	52.12	52.11	51.93	52.87	52.26	1.12	52.87	52.69	52.71	53.35	52.91	0.65
OPEC NGL	3.74	3.76	3.86	4.04	0.18	3.99	4.19	4.41	4.37	4.24	0.21	4.55	4.70	5.04	4.89	4.79	0.55	4.99	5.11	5.20	5.25	5.14	0.34
OPEC Non-conventional	0.16	0.14	0.09	0.11	0.02	0.11	0.11	0.11	0.11	0.11	0.00	0.11	0.11	0.11	0.11	0.11	0.00	0.13	0.17	0.19	0.19	0.17	0.06
OPEC (NGL+NCF)	3.89	3.89	3.95	4.14	0.19	4.10	4.30	4.52	4.48	4.35	0.21	4.66	4.81	5.15	5.00	4.90	0.55	5.11	5.28	5.39	5.44	5.31	0.40
Non-OPEC & OPEC (NGL+NCF)	53.44	53.78	54.37	54.42	0.05	55.04	55.13	55.61	56.14	55.49	1.06	56.77	56.91	57.08	57.86	57.16	1.67	57.99	57.97	58.10	58.79	58.21	1.05

Note: Totals may not add up due to independent rounding. Indonesia has been included in non-OPEC supply for purpose of comparison

Table 10.7: World Rig Count

	2005	2006	Change 06/05	2007	Change 07/06	1Q08	2Q08	3Q08	4Q08	2008	Change 08/07	1Q09	2Q09	3Q09	4Q09	2009	Change 09/08	1Q10	2Q10	3Q10	4Q10	2010	Change 10/09	1Q11	Mar 11	Apr 11	Apr/Mar
US	1,381	1,647	267	1,767	119	1,770	1,864	1,978	1,898	1,877	111	1,326	936	956	1,108	1,081	-796	1,345	1508	1622	1687	1541	459	1717	1721	1789	68
Canada	458	470	12	344	-126	507	169	432	408	379	35	328	91	177	277	218	-161	470	166	364	389	347	129	587	568	184	-384
Mexico	107	83	-24	92	9	96	106	103	106	103	11	128	128	135	123	128	26	118	106	84	80	97	-31	83	85	80	-5
North America	1,945	2,200	255	2,202	2	2,373	2,139	2,513	2,411	2,359	157	1,782	1,154	1,267	1,508	1,428	-931	1,933	1780	2070	2156	1985	557	2386	2374	2053	-321
Norway	17	17	0	18	1	17	21	21	21	20	2	25	18	18	20	20	0	21	18	13	20	18	-2	21	19	18	-1
UK	21	27	5	26	-1	19	21	24	24	22	-4	22	19	16	15	18	-4	15	20	21	21	19	1	18	15	18	3
Western Europe	70	77	7	78	0	91	97	101	103	98	20	90	82	76	85	83	-15	87	96	92	100	94	11	118	118	112	-6
OECD Pacific	25	26	2	29	2	32	39	39	34	36	7	27	25	26	23	25	-11	22	18	23	22	21	-4	17	16	17	1
Total OECD	2,078	2,347	269	2,352	4	2,532	2,317	2,698	2,593	2,535	183	1,945	1,299	1,368	1,616	1,557	-978	2,042	1893	2185	2278	2100	543	2521	2508	2182	-326
Other Asia	200	202	2	212	10	213	220	218	212	216	4	212	212	213	233	217	1	235	249	253	255	248	31	257	245	237	-8
Latin America	129	149	19	175	27	187	184	195	197	191	16	164	147	149	169	157	-34	183	203	220	213	205	48	222	226	218	-8
Middle East	131	132	1	149	18	158	165	175	171	167	18	162	151	139	147	150	-18	152	150	163	159	156	6	163	159	157	-2
Africa	8	10	2	14	4	10	13	14	11	12	-2	8	11	9	12	10	-2	20	19	19	18	19	9	22	22	23	1
Total DCs	468	493	25	551	58	569	583	602	591	586	36	546	520	510	561	534	-52	589	621	655	645	628	93	663	652	635	-17
Non-OPEC Rig Count	2,546	2,840	294	2,903	62	3,101	2,900	3,300	3,183	3,121	219	2,491	1,819	1,878	2,177	2,091	-1,030	2,632	2514	2840	2924	2727	636	3184	3160	2817	-343
Algeria	21	24	4	27	2	26	27	24	26	26	-1	24	30	27	27	27	1	23	28	24	24	25	-2	29	24	32	8
Angola	3	4	1	4	1	5	6	5	5	5	1	5	3	3	4	4	-1	10	8	9	9	9	5	7	5	4	-1
Ecuador	12	11	0	11	-1	7	9	12	13	10	-1	10	10	10	10	10	0	11	11	11	11	11	1	11	11	11	0
Iran	40	44	4	50	6	50	50	50	51	50	0	51	52	52	52	52	2	52	52	52	52	52	0	52	52	52	0
Iraq	0	0	0	0	0	29	29	29	29	29	29	36	36	36	36	36	7	36	36	36	36	36	0	36	36	36	0
Kuwait	12	14	1	12	-1	12	11	12	12	12	0	12	11	14	13	13	0	19	18	21	23	20	8	30	33	36	3
Libya	9	10	1	13	3	14	15	15	15	15	2	15	13	14	15	14	-1	17	17	14	15	16	1	10	0	0	0
Nigeria	9	10	1	8	-1	9	8	6	6	7	-1	7	6	6	7	6	-1	11	13	18	17	15	8	14	14	13	-1
Qatar	12	11	-1	13	2	11	12	11	11	11	-1	9	9	9	9	9	-2	8	8	9	9	9	0	10	9	7	-2
Saudi Arabia	37	65	28	77	11	78	77	76	76	77	0	72	67	67	66	68	-9	68	67	67	65	67	-1	62	65	68	3
UAE	16	16	0	15	-2	12	12	13	12	12	-2	13	12	13	12	12	0	13	13	13	13	13	1	17	21	19	-2
Venezuela	68	81	13	76	-5	82	81	77	81	80	4	69	64	54	54	60	-20	66	64	70	80	70	10	94	93	93	0
OPEC Rig Count	238	290	51	305	16	336	337	330	336	335	29	322	314	302	305	311	-24	334	335	344	355	342	31	372	363	371	8
Worldwide Rig Count*	2,785	3,130	345	3,208	78	3,438	3,237	3,630	3,519	3,456	248	2,813	2,133	2,180	2,483	2,402	-1,054	2,965	2849	3184	3278	3069	667	3556	3523	3188	-335
of which:																											
Oil	980	1,124	144	1,242	119	1,408	1,351	1,479	1490	1432	190	1283	1069	1182	1356	1,222	-210	1,590	1534	1783	1896	1701	479	2191	2209	1946	-263
Gas	1,746	1,947	201	1,903	-44	1,969	1,814	2,070	1948	1950	47	1450	993	965	1092	1,125	-825	1,333	1276	1356	1337	1325	200	1319	1270	1196	-74
Others	21	17	-4	20	4	26	32	36	37	33	12	35	35	34	37	35	3	43	40	42	46	43	8	48	45	48	3

*/ *Excludes China and FSU*
na: *Not available*
Note: *Totals may not add up due to independent rounding*
Source: *Baker Hughes International & Secretariat's Estimates*

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The OPEC Award for Journalism 2012

Call for Nominations

Nominations for the second OPEC Award for Journalism are now on. Interested journalists, analysts and media organizations are invited to nominate candidates for this Award, which will be presented in Vienna, Austria, in June 2012.

Objective of the Award

The OPEC Award for Journalism honours journalists, analysts and Organizations that have devoted their careers to objective, balanced reporting on — and analysis of — the oil market. Such work would have contributed to a greater understanding of the workings of the global oil market over a significant period.

Eligibility

The competition is open to all print and broadcast journalists and analysts (including those from OPEC Member Countries) that have reported on — and analysed — the industry for more than ten years.

Nominations

Completed nomination forms — together with five samples of work previously published or broadcast (CDs/DVDs) covering the required time-frame — should be emailed to prid@opec.org or posted to:

The Chairman
The OPEC Award for Journalism
c/o Public Relations and Information Department
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17
A-1010 Vienna, Austria

Nomination forms are available on the OPEC website, www.opec.org. All material should be received by ***Tuesday, 31 May 2011***. Eligible candidates may nominate themselves, while third-party nominations are also permitted.

Winner

All entries will be judged by a panel of academics, journalists and oil industry experts. The winner will receive a plaque and a cheque of 5,000 Euros which will be donated on his/her behalf to any institution or charity of his/her choice.

Presentation of the Award

The OPEC Award for Journalism will be presented at the close of the Fifth OPEC International Seminar in Vienna, Austria, on ***13–14 June 2012***.

The OPEC Award for Journalism 2012

Nomination form

Name of the Nominee: ____________________

Position (for individuals/groups): ____________________

Company/Organization: ____________________

Street address: ____________________

City: ____________________ **Country:** ____________________

Telephone: ____________________ **Email:** ____________________

Nominating Organization (if applicable): ____________________

Address: ____________________

City: ____________________ **Country:** ____________________

Telephone: ____________________ **Email:** ____________________

Please send completed nomination forms and five samples of published/broadcast (CDs and DVDs) work by email to prid@opec.org or by post:

The Chairman
The OPEC Award for Journalism
c/o the Public Relations and Information Department
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17
A-1010, Vienna, Austria

All material should be received by 31 May 2011.

The OPEC Award for Research 2012

Call for Nominations

The presentation of the fourth prestigious OPEC Award for Research will take place in Vienna, Austria, in June 2012. Organizations and institutions are invited to nominate qualified candidates to be considered for this Award.

Objective of the Award

The OPEC Award for Research recognises past efforts and encourages future endeavours. In this regard, it honours individuals who have made outstanding contributions to knowledge of the petroleum industry and oil-related issues.

Frequency of the Award

Instituted in 2004, the OPEC Award for Research is conferred by the President of the OPEC Conference on the occasion of the biennial OPEC International Seminar.

Eligibility

To be eligible for the OPEC Award for Research, the recipient must:

i. Be well-known in the energy industry and/or academia;
ii. Have consistently maintained high achievement levels over many years, including the production of a substantial record of publications;
iii. Have shown dedication to research and analysis of important oil-related issues;
iv. Have contributed to an improved understanding of key determinants that support oil market stability;
v. Have played a role in enhancing dialogue between producers and consumers;
vi. Have demonstrated a high level of objectivity and integrity in his/her work;
vii. Have consistently presented a critical, yet impartial view on oil-related issues in public debates and discourse;
viii. Have furthered knowledge in the oil industry by encouraging and promoting young researchers within OPEC Member Countries and the developing world;
ix. Have demonstrated innovative thinking throughout his/her career.

Nominations

Candidates for the OPEC Award for Research can be nominated by individuals, institutions and/or Organizations by filling out the nomination form. This can also be downloaded from the OPEC Website www.opec.org. Completed nomination forms, accompanied by a 500-word biography of the candidate and a list of some of his/her publications, should be sent either by email to prid@opec.org or by post to:

The Chairman
The OPEC Award for Research
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17
A-1010 Vienna
Austria

Deadline for nominations is ***Tuesday, 31 May 2011***.

Winner

The recipient of the OPEC Award for Research will be chosen by a panel of professionals in the industry from within and outside OPEC Member Countries and the OPEC Secretariat.

Presentation of the Award

The OPEC Award for Research will be presented at the close of the Fifth OPEC International Seminar in Vienna, Austria, on ***13–14 June 2012***.

The OPEC Award for Research 2012

Nomination form

The call for nominations for the 2012 OPEC Award for Research has begun. The OPEC Award for Research recognizes past efforts and encourages future endeavours. In this regard, it honours individuals who have made outstanding contributions to knowledge of the petroleum industry and oil-related issues. Instituted in 2004, the Award is conferred by the President of the OPEC Conference on the occasion of the biennial OPEC International Seminar.

Name of the Nominee: ____________________

Position: ____________________

Company/Organization: ____________________

Street address: ____________________

City: ____________________ **Country:** ____________________

Telephone: ____________________ **Email:** ____________________

Nominating Institution: ____________________

Address: ____________________

City: ____________________ **Country:** ____________________

Telephone: ____________________ **Email:** ____________________

Please send completed nomination forms and samples of published work by email to prid@opec.org or by post:

The Chairman
The OPEC Award for Research
c/o the Public Relations and Information Department
Organization of the Petroleum Exporting Countries
Helferstorferstrasse 17
A-1010, Vienna
Austria

All material should be received by 31 May 2011.

Data Summary May 2011

OPEC Basket average price

US$ per barrel

⬆ up $8.25 in April	**April 2011**	**118.09**
	March 2011	109.84
	Year-to-date	105.28

April OPEC production

in million barrels per day, according to secondary sources

⬆ up 0.07 in April	**April 2011**	**28.99**
	March 2011	28.92

World economy

The global growth expectation for 2011 has been maintained at 3.9%, although there have been some offsetting revisions. The US is forecast to grow at 2.6%, down from 2.9% previously, while the Euro-zone forecast has been increased to 1.7% from 1.5%. Japanese growth expectations are unchanged at minus 0.1%. GDP growth in China and India remains unchanged at 9.0% and 8.1% respectively.

Supply and demand

in million barrels per day

2010		09/10
World demand	86.7	**2.1**
Non-OPEC supply	52.3	**1.1**
OPEC NGLs	4.9	**0.6**
Difference	**29.5**	**0.5**

2011		10/11
World demand	88.1	**1.4**
Non-OPEC supply	52.9	**0.6**
OPEC NGLs	5.3	**0.4**
Difference	**29.9**	**0.4**

Totals may not add due to independent rounding

Stocks

US commercial inventories continued the downward trend, declining by 1.3 mb in April. The draw was driven by products which fell by 10.1 mb, while crude stocks increased by 8.9 mb. Despite this drop, US commercial oil inventories remain at 10 mb above the historical average. The most recent data for Japan shows that commercial oil inventories increased by 2.0 mb in March.

Issued 11 May 2011

Next report to be issued on 10 June 2011

Data covered up to the end of April 2011 unless otherwise stated.